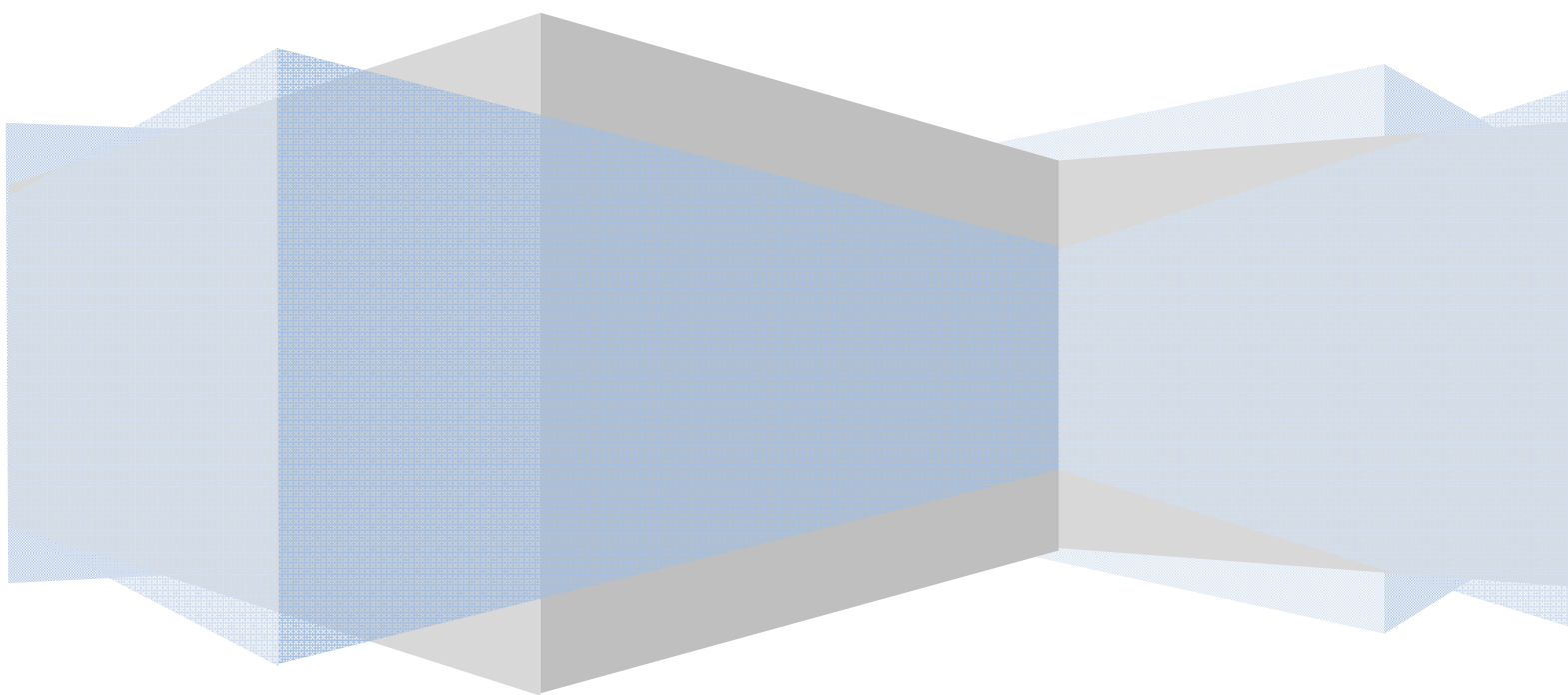


**CATHOLIC UNIVERSITY OF ANGOLA**

**CENTRE FOR SCIENTIFIC STUDIES AND RESEARCH**



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## Preface

1. This is the seventh edition of the Annual Report on the Angolan economy published by the Catholic University of Angola, through its Centre for Scientific Studies and Research (CEIC). As usual, we may not share the comments and analysis contained in this document, but the fact that it is the most complete, rigorous and thoroughly researched document on the Angolan economy is hardly denied.

The report is basically focused in three levels of analysis. The world context, particularly the world financial and economic crisis; The African implication with stress on the SADC region; and, naturally, the essential object of the report: The Angolan economy.

2. In regard to the existing crisis, we must admit that it has become for the first time a world issue, taking systematically and in a more or less intense form the world economies in general in double sense: By the manner it has been spreading and by the different kinds of impact. Therefore, this is neither just one more crisis, nor is it the last crisis and the beginning of the end of capitalism and of the market economy, as is still expected (and dreamt?) by some. This is a global systemic crisis. The fall of the Soviet economy in the early 1990's triggered a systemic crisis as well in the system of central economic direction. The determinants were different and its effects tenuous on the world economy. However, there was at this level a very important effect: The argument that the failure of this kind of model brought about by reasons beyond the simple economic dimension, marked the great victory of capitalism, the market economy and the free initiative. The socio-liberal and ultra-liberal economic thoughts (particularly from the Bush Administration era (which we avoid to classify) start a dominion over the public and private policy making, and over the behaviour of companies and institutions and even the individual attitudes. It was the great "drunkenness" of free initiative and self interest. The State was relegated to limited supplementary functions. The logic that the market should regulate and self-regulate everything became untouchable and very quickly and opportunistically taken and

propagated by the international institutions, from the IMF to OCED, and going through the national and the international banking systems, all inspired by what was happening in the USA. The consequences were not far to be felt, all mechanisms of regulation were weakened (including, and very seriously the auditing and rating companies, which are now left totally overlooking, irresponsibly as if nothing had to do with them); huge speculative “cracks” created in the financial systems and supported by an amazing credit expansion in consumption and real estate provided with a lot more flexibility compared to those given to companies for investment, and with less immediate results, as is the case of research and development.

3. Subsequent to this uncontrolled evolution of the free initiative and self interest is also the marginalization or extinction of values that should support the behaviour of individuals and societies. Mutual respect, truth, ethics, rigour, solidarity, and social and individual accountability were considered as lower values. On the contrary, deceit and corruption were adopted as reference values by individuals, families, companies and institutional powers; “the ends justify the means” was transformed into a wild lust based on the motto “consumption now” and the disregard for the religious practices and values.

In the USA for example, but not only there, were already uncovered huge and unthinkable situations of fraud and economic crimes in this century, covering all levels of the financial and economic system: From the ENRON bankruptcy (a giant in the electrical sector), the Arthur Andersen case (auditing) and the Lehman Brothers (banking), to frauds committed by a lawyer who used to sell false bonds by imitating voices on the telephone (276 million Euros), and the manager who created a false financial pyramid scheme (36 billion Euros), a banker (187 billions), and still a corrector who manipulated confidential information (5 billions Euros). These are only few illustrations of what has also happened in other countries and continents.

4. The systemic impact was fast and generalized, because the globalization articulated the national and regional financial systems in a very closed way. The scope and

effect in the real economy is still to be determined. There are contradicting forecasts emerging every week about the scope and duration of the global systemic crisis.

For instance, the most recent prevision of the OCED for 2009 indicate a break of the GDP of 6.8% in Japan (6.6% previously), of 4.8% in the Euro zone (4.1% previously), and 2.8% in the USA (4.0% before). For China, it is expected an even higher and positive growth of (7.7%) well above the previously expected (6.6%).

The impact has not yet been permanently and totally felt, so all forecasts must be deeply pondered and carefully considered.

However, it seems that the recovery will have 2 trains: China and the USA. Europe is expected to be the last great bloc to recover and only in the 2nd semester of 2010.

If this forecast is materialized, we will see that although the repercussion of the financial and economic crisis is systemic and global, it will not reach the feared catastrophic expression (in 1929, the crisis in the USA provoked a break of 25% in the GDP and rose the unemployment rate to 30%).

Nevertheless, the economy will register good changes of structure, fundamentally in the industrial sector, through new technological and more amicable solutions of the environment and less intensive in energy and in the same time, the capitalist concentration process will be accelerated. On the other hand, the real economy starts to feel the effects of a more selective and expensive credit policy. Unfortunately the massive cash that is been injected have only helped the banks to cover their own big holes and not to support the recovery of the economy.

Let us wait for the systemic effects, but of different nature this time. In the meantime, unless new and considerable injection of capital is made, the recovery of the real economy may be hampered. There is only a sign of concern: the reduction

or elimination of the supplier's credit to clients, and the majority of payments being now made in cash.

5. Although positive, the recovering process already in course will not make us forget the causes of the current situation, and there are already rising voices against the excessive regulation that is been implemented. This aspect should not be forgotten. It is therefore essential to:

- Redefine the paradigm of economy and development, and of the values, principles and rules that should support them;
- Have in mind that the developing countries, particularly the African countries, will not continue to be the usual sacrificed, specifically if public aid for development and access to international credit is limited;
- Establish new regulation systems of a systemic nature and not only specific to the financial system;
- Define and apply more severe penalties for economic frauds and crimes and greater social responsibilities for managers.

2008 has already had a considerable impact of the crises in Africa and also in Angola.

The CEIC report is extensive in its characterization, as well as in the short term perspectives and therefore, reading it is the fundamental issue.

However, we are unable to resist to some highlights and considerations.

6. In regard to Africa, it is important to stress the following:

- a) Africa has retaken and undergone a very promising and interesting trajet of growth (5.5% as the GDP growth rate). This trajet has now been stopped for



exogenous reasons. The impact of this growth was being fruitful in the reduction of poverty, even considering the fact that it was below the expected desirable results in improving the living conditions of the population. Once more, the African Continent will be the most unjustly penalized and with great repercussions at the human levels.

- b) The spread of peace in the Continent and particularly in Angola, and the tendency to consolidate the democratic systems shadowed by some exceptions (that had previously been the rule) of legitimate usurpation of power.
- c) The Dissemination of good practices in the public and business management.
- d) The progressive conciliation of political and economical positions both in the African Union and in the sub-regions, as well as the relative advancement of the movements of economic integration.
- e) Finally, the persisting imbalance in the international economic relations, characterized by the *leit-motif* of access to the strategic natural resources of the continent by many of the investors.

These last years have generated considerable hopes and expectations in Africa. A possible break to this movement, and above all caused by outside forces, might generate new blockage and hindrances that would take decades to overcome.

7. Angola is a concrete expression of this hope, particularly after the re-establishment of peace in 2002. The Angolan economy in the subsequent period (2002-2008) has effectively grown in an annual average growth rate never experimented by the country before: 15.5%, almost 8 times the growth registered in the period of 1980 and 2002 (2.1%).

This rhythm enabled Angola in 2007 to become the 7th African economy, the 3rd in Southern Africa, the 2<sup>nd</sup> of SADC and the 1<sup>st</sup> in CEEAC.

This evolution was greatly determined by the mineral production (oil and diamonds). But this is not all. Between 2002 and 2008, the average annual growth of the non-oil products (7.1%) was not far behind the average registered in the oil production (7.6%). We stress the fact that the Index of Transformation of the Industry Structure grew considerably in the last years. This is good news for the Angolan economy, and it demands a more attentive reading of item 5.3 of this report “The priority sectors for product diversification”.

Other good news from the recent past years:

- i) The pacific and almost exemplar organization of legislative elections;
  - ii) The macro-economical, monetary and cambial stabilization;
  - iii) The quick (and exaggerated?) development of the banking system;
  - iv) Growth of the international cash reserve (over USD 20 billions in November 2008) reaching almost one year of import goods and services.
8. The growing economic dynamic of the recent past years started to be refrained at the end of 2008, with the year 2009 registering already signs of sudden breaking. The main reason is the fall of the exported quantity and the oil and diamonds prices.

The prices of these minerals fell in about 75% between June 2008 and the beginning of 2009.

The impact of this evolution has been sensitive. On the other hand, in Angola, the rapid growth of the economy was strongly slowed down by external factors. This is due to a vulnerability that need to be quickly overcome: The dependence on oil. But

there are still other vulnerabilities that must be addressed as quickly as possible, in order to protect more the economy from the external blows, such as:

- i) The weakness of the structural factors of competitiveness (qualification, research and development, quality,...) and business development (see the reasons for the bad positioning of Angola in the “*Doing Business ranking 2009* – item 2.2 of the report) and which is greatly due to the deficient public service delivery in different areas.
- ii) Continuing high levels of poverty and inequalities, which still hinder social cohesion and the creation and enlargement of the internal market, despite the visible progress in recent years.
- iii) Weak internal savings, and the consequent severe conditioning of investment and growth, which is only possible with the growing resort to external funding and debt.
- iv) Transport infrastructure and logistics does not work, and is a heavy economic burden due to lack of efficiency and patience, with serious repercussion in the inflation.

On the other hand, the recent economic growth calls for a clear reconsideration of the objectives of the economic policy being implemented, particularly in regard to the monetary and cambial issues. Therefore, it would be a mistake already made by many, to choose the stability of prices, including the exchange rate as a determinant variable of the macro-economic policy. The competitiveness of the economy would be hindered and the so called “Dutch disease” would be spread as a virus. The monetary stability and control are precious goods that should not be looted. But there are also other additional determinants of the future that should not be ignored. An adequate environment for investment and a moderation of consumption are handles of progress.

Angola has a path to follow, and this is set up in its long term strategy to 2025. So, it has to finish its vulnerability to the storms, because “every wind is against those who sail without direction”.

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## 1. - INTRODUCTION

The year 2008 will certainly go down in History for two important facts that occurred towards the end of the year, and which real effects on the world economy – and on the Angolan economy as part of the first- are still not known for the moment: **The international economic and financial crisis** and the **election of Barack Hussein Obama**, an acclaimed socio-democrat, into the presidency of the world's greatest economy.

In 37 years of world economy – between 1970 and 2007 – there were 124 systemic banking crises in 100 different countries<sup>1</sup>, and this is a sign that we are not dealing with a rare and unusual event, but with a situation that although dramatic, have to be regarded as ordinary in the capitalist system. In reality, over 120 crises in 40 years are far from being an odd reality.

Crises may occur even without mistakes, because it is an intimate part of the nature of capitalism and not justified only by the greediness and brainlessness of some banking agents and stock brokers that originate them. The essence of the economic system practiced by all world economies (with the exception of Cuba and North Korea, and even if joined by Venezuela, Peru and Bolivia have not any economic expression and relevance) is based in the freedom of initiative. To this are added the values of private property, freedom, merit and efficiency. These are the ingredients and driving-forces behind the extraordinary development of humanity in the past two centuries. The end of capitalism will not be dictated by the corrections of the banking and financial systems being carried out by Governments. The governmental intervention (resumed in the nationalization of banks or injection of cash in the economy in huge amounts) is not socialism, Keynesianism or interventionism, as claimed by some elements. It is the strictest and clearest monetarism. Milton Friedman, the Nobel Prize winner in Economics and considered as the supreme neo-liberal, recommended these remedies for dealing with crises such as the one we are facing currently.

The greatest concern in a financial crisis (which may be dealt with and stopped without lopsiding beyond the banking system) is related to the consequences to the real economy.

It seems that the financial crisis is now going through its most critic phase. Towards the end of 2008, the indexes of the most important economies of the world finance registered very dramatic accumulated losses. The American Dow Jones reported a fall of 34,9%, the German Xetra Dax fell in 41,6%, the French CAC had a negative variation of 44,2%, the Spanish Ibex suffered an accumulated loss calculated in 40,6%,

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<sup>1</sup> International Monetary Fund, Working Paper, 2008, *Systemic Banking Crises: A New Database* de Luc Laeven e Fabien Valencia.

the Japanese Nikkei fell to 42,1%, and the Footsie from the United Kingdom slumped to 33,3%. Emerging Russia's financial market presented the worst accumulated loss in the world with a record of 72,7% and China, the star of the world economic growth in the past 30 years lost 48,8%. These are the greatest losses in the international stock exchange markets in 30 years.

The Portuguese stock exchange has not escaped from this world financial typhoon, with the companies of the PSI-20 registering an estimated accumulated loss of 37,9 billion Euros from January to December 2008<sup>2</sup>.

Then, what is going on in the international financial markets? Robert Shiller (American economist from the University of Yale) has been one of the most far-sighted analysts of the international crisis. Those who have read some of his statements will certainly remember his concerns about the technological blister of the decade of 1990's in the past century. Paul Samuelson and Robert Solow were other leading American economists (the two had already been distinguished with the Nobel Prize) to raise pertinent questions about the economic disturbance that occurred between the years 1990 to 2000. In an excellent article reproduced by the extinguished Portuguese magazine *Economia Pura*, Robert Solow talks about the paradox of productivity: "*Computers are seen everywhere but in the statistics of productivity*". The debate centre was on the real causes behind the economic prosperity registered in that decade: Some economists argued that the significant increase in productivity (caused by the spread of information and communication technologies and by a better organization of the companies) were responsible for the essential threefold reality of the GDP growth, reduction of unemployment and low inflation. Others, on the contrary, contended that no meaningful different thing was happening compared to the past technological revolutions such as electricity, the railways, the automobile, etc. Debates between Robert Gordon (proponent of the last point of view) and Rudigger Dornbush (deceased), proponent of the idea that the systematic improvement of productivity would be unstoppable and would

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<sup>2</sup> The Millenium BCP and BPI Banks and its energetic companies EDP and GALP are the Portuguese companies in which SONANGOL and UNITEL have invested considerable sums of money. If in the case of UNITEL the risks are under their own responsibility, given the fact that it is private. However, the same does not happen with SONANGOL which is a hydrocarbonets supplying public company. So, in this case the financial movements should be reported to the National Assembly and due authorization be requested, considering that this is the Nation's money, represented by the State and Government. If we consider the previously allocated amounts, we conclude that there may have been considerable losses in the accounts of the acquired shares. The risk of making business with Portugal is well expressed by the value of its foreign debt, which increased from 11% of the GDP in 1996, to over 90% in 2008. These datum is still not definite and in case the analisis is made in term of net foreign debt, the scenario will be even bleaker, with the ratio GDP/debt reaching the double of the Portuguese national wealth. The World Factbook, of the Central Intelligence Agency (CIA) ranks the Portuguese net foreign debt as the 19<sup>th</sup> highest of the world. Portugal is very vulnerable, because it has a very high foreign debt, in this time of a very serious financial crisis, and with restrictions in the credit market (Sónia M. Lourenço, Revista Exame, Março de 2009).

give rise to a sustainable economic growth. Joseph Stiglitz wrote the History and synthesis of the 1990's in a magnificent book on the world economy of that period<sup>3</sup>.

However, those years were not that roaring for the developing economies, which faced successive crisis, starting with Mexico in 1994, followed by Thailand, Indonesia, and the Republic of Korea in 1997 and 1998, Brazil and Russia in 1998, and Argentina at the end of 2000 (the famous declaration of foreign bankruptcy by the country before its foreign creditors was the peak) the International Monetary Fund showed total impotence to suggest credible and efficient solutions.

Nouriel Roubini (owner of Doctorate degree from the University of Harvard in 1988 and currently a professor at the University of New York) studied the causes of such crises and concluded that the huge deficits of foreign accounts had been responsible for the subsequent economic crises. When the economies spend more than what they produce (we in Angola know very well this situation lived with much sacrifice during the period of military conflict and the administrative model of economic management) have to fund the differential with foreign credit, which expose them to the national equivalent of bank discredit of the mass withdrawals. The majority of those economies presented deficient and fragile banking regulation systems and highly risky loaning bills, associated to a laxist and weak business management.

After analyzing the markets that had collapsed in the 1990's, Roubini turned his attention to the study of the American economy, which presented an external deficit estimated in 600 billion dollars in 2004, having concluded that the USA would be the next country to face intensively a financial crisis. His convictions increase when the American Federal Reserve decided to successively decrease the interest rate (in order to counter the internet failure (the crash of the dotcoms), the Asiatic crisis and the signs of the falling of economic growth (until close to 0%). The foreign investors stopped financing the double American deficit (the fiscal one that of the current account) and the dollar collapsed. According to his opinion, the true price of the current international financial crisis may reach the sum of 1000 to 1500 billion dollars.<sup>4</sup>

However, it seems that the current international financial crisis was foreseeable, but the economist misinterpreted their own profession. Their centre of gravity is the American economy, which has been living on the expenses of the rest of the world economy. According to Martin Wolf<sup>5</sup>, the external debt of the United States of America

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<sup>3</sup> Stiglitz, Joseph - The Roaring Nineties: A New History of the World's Most Prosperous Decade", 2003.

<sup>4</sup> The Banks losses of value in the stock exchange have been rampant. According to the economic supplement of the Expresso newspaper of 28 February 2009, during the period from 30 June 2007 and 25 February 2009, the greatest European and North American banks lost about 1783,6 billion dollars, corresponding to 39 times the gross national income of Angola in 2007.

<sup>5</sup> Wolf, Martin – Le Plan Poulson n'est pas une bonne solution à la crise, Le Monde, 30 Septembre, 2008.

grew from 163% of the GDP in 1980 to 346% in 2007. Two sectors are responsible for this dramatic increase: Families whose debt increased from 50% of the GDP in 1980 to 71% in 2001 and 100% in 2007; and the financial sector, with a debt stock of 116% of the GDP in 2007, against 21% in 1980 and 83% in 2000. With so exceptional amount of external debt and the difficult internal situation, the probability of dragging other countries and entities into bankruptcy is very great.<sup>6</sup>. The fear is the occurrence of the phenomena of *debt deflation* discovered by the American economist Irving Fisher in 1933 and faced by Japan in the 1990s.

The emergence of the current financial crisis is officially believed to have happened on 6 August 2007, when the American Home Mortgage, one of the greatest independent loaning institutions in the United States of America, declared bankruptcy because of the fall of the real estate market. However, since 2000 the sharpest operators of the financial markets had identified worrying signs that sooner or later the stock exchange crash would become a reality.

The simplest explanation for the current financial crisis is in the strong increase of the prices of houses in the United States of America (but also in the United Kingdom and in Spain, although this fact is always neglected) and of the opportunities such fact created for the real estate intermediaries and correlated financial structures. These signs from the real estate markets were taken so firmly, to the point of justifying an unprecedented multiplication of credit supply for housing (own house or commercial) through almost endless processes of funding, refunding and re-refunding with a considerable neglect to the most fundamental criteria of bank guarantees, which contributed for a real estate failure of catastrophic proportions and destructive effects from the moment the prices of housing started to fall down disastrously.

In 2000, the bursting of the Internet failure (an accentuated breaking of the stock of exchange pegging of the most important companies working in high technologies of information and communication) the eruption of great financial scandals with big companies such as Enron, the manifestation of the Asiatic crisis and the slowing down of the American Economy growth forced the American Federal Reserve to decrease the interest rate from 6,5% to 3,5% in a few months period. The Terrorist attacks of

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<sup>6</sup> Nouriel Roubini shows reluctance to the nationalization of the American Banks facing financial constraints, as a solution to reestablish the fundamentals of the United States financial system. In reality, the nationalizations would increase thousands and thousands of dollars to the already suffocated federal debt, apart from that already accumulated by the families and companies. The greatest financiers of the American debt are China, Russia and the Gulf States, who are rivals of the United States and not properly allies, which raises an important international Geopolitical problem. This means that whatever economical solution is found for the United States financial crisis, will be found through complicated, sensitive and hard political arrangements. The hope lies in the expectation that Obama's program may yield rapid and positive results. The United States will surely be able to overcome the crisis, but its position in the World after the crisis will surely be different, even if it maintains the statute of the World's greatest economic, technological, scientific and military power. Multilateralism will have to be the global strategy for tackling the economic, social and political crisis.



September 11, 2001 sunk even deeper the American economic crisis, having continued to react through a continuous reduction of the interest rate, until the value of 1% in July 2003, the lowest in 50 years. During almost 3 years, the short term interest rate adjusted to inflation was negative. With cheap money and the tendentially growing prices of housing, single opportunities of profitable investment were established, which in its turn gave rise to an outfit of financial mechanisms to channel funds to these investments. In a context of an extremely favourable context, the finance system used these opportunities to ensure exceptional profitability to the investors.

When the price of money is low and the value of property is expected to rise higher than the cost of renting, it makes sense to own more houses than those that one intends to occupy. The credit Institutions alleviated the loaning procedures and invented new forms of stimulating business and generate advantages, which resulted in the increase of the prices of housing (the typical speculative madness). From the moment the prices of houses started to fall down, still in 2006, all the process of generating speculative profits and disconnected to the real economy was condemned to failure, and dragging with it other financial activities and large sectors of the real economy.

In reality the financial crisis is spread. Initially, the thought was that this crisis was limited to the subprime (highly risky real estate mortgages) but soon the bell rung that the risk of contamination existed and was great. George Soros<sup>7</sup> states that a feeling of sorrow has spread from the housing real estate business, to the most diverse debt, from those of credit cards, to the real estate of income, and finishing in the automobile market. He says: *“Along the past decades the United States have been able to overcome great financial crises, such as the 1980 great international loan crisis and saving and loan crisis in early 1990. But this crisis is of totally different kind. It has spread from a market segment to the others, particularly those using artificial instruments and structures built from the bottom. Both the exposition and the capital foundation of the great financial institutions have been joined in the equation, and uncertainty is likely to continue to be resolved for a long period of time. This is hampering the normal functioning of the financial system and is likely to have long term consequences for the real economy”*. This means that the world economy is in a financial storm such as never seen since the Great Depression of 1929-1932. The question now is: Is this financial crisis a prelude to other great depression? The financial markets and the financial authorities have been very slow in realizing that the real economy will in fact be affected. It may be in different proportions and intensity from country to country, but will certainly affect, which may cause a vicious circle of world economic downfalls. Since the real economy is stimulated by credit expansion, its contraction leads certainly to a compression of economic growth. It can not be otherwise.

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<sup>7</sup> Soros, George - O Novo Paradigma para os Mercados Financeiros: A Crise do Crédito de 2008 e as suas Implicações, Almedina, 2008.

In fact, all predictions of economic growth (both the world economy and of those participating in the world economy) have been successively reviewed in significative depth, and it is feared that both the developed and emerging economies may enter into recession during 2009.

Just as in the decade of 1990 of the last century, we are again leaving in an interesting period of theoretical reflection, now moved into the regulation of financial markets and the role of the State in the market economy.

George Soros states that the base of the current crisis is in the speculative and unusual expansion of credit and in the market fundamentalism. The excessive cash injected in the American economy since 2000, as a solution practiced by Alan Greenspan in order to overcome the Asiatic crisis, the collapse of the new Technology companies and the economic recession in the aftermath of September 11, 2001, did not generate the effects expected by the former president of the Federal Reserve, that is, that the market would be able to correct the excess and deflections by itself and return to its normal course. For Soros, the current crisis represents the end of an era of financial supremacy over the real economy, but never ever the end of capitalism.<sup>8</sup>

Over 200 outstanding American economists (amongst them the Nobel Prize winners Robert Lucas from the University of Chicago and Vernon Smith from Chapman University) have vehemently criticised the interventions of the Bush Administration in the financial markets at the end of 2008, especially the financial package of 740 billion dollars, for considering that the Poulson plan had some negative vectors, namely, its injustice, ambiguity, and its long term effects on the foundation of market economy. Kenneth Rogoff believes that the intervention of the American treasury in order to try and regulate the financial market will lead the companies into a situation of rupture, such as the automobile, and request identical treatment to that given to the financial sector. This forecast became a reality in 2009, already during the Obama Administration and in the context of the anti-crisis set of measures of his Administration.

Nonetheless, the state intervention over the financial system is always indispensable, when a systemic risk exists. It has always been that way, and so it will be given its vulnerability. But this does not mean the return to a fundamentalist state intervention on the economy.

The election of Barack Hussein Obama to the presidency of the United States of America took place in a moment of serious international economic and financial crisis and of a very great political instability in the world, with the main focus been Russia, international terrorism, and Islamic Fundamentalism, the Israeli-Palestinian issue (which

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<sup>8</sup> Francis Fukuyama, in his best-seller 'the end of History', says that "*in the end of History there will no longer be serious ideological opponents of liberal democracy*" and the fact of persisting in this same end of History, another autocracy in active, is not a matter of concern, adds Robert Kagan ( International courier, October 2008).

George Walker Bush promised to solve before the end of his unfortunate mandate) the Balkans and the Middle East, with stress on Iran, Iraq and Syria. Obama receives a country that in eight years of Bush Administration witnessed the degradation of its economy, its external and fiscal deficits accumulating in billions of dollars annually, the gas emissions increasing (the United States and China are the greatest polluters of the atmosphere) and its consumption of raw-materials and energy achieving record levels. The new American president has in fact very serious and profound problems on his hand that have never happen in the History of his country and the world. His humanistic education and his socio-democratic standing turn him into a hope for overcoming the current world problems and the starting of an era of international political balance (in which all voices are heard in the definition of a less imbalanced model of interaction) and of a better distribution of the world revenue.

The Tony Lake and Susan Rice team (the second is repeating her position in the department of African Affairs of the American Administration) is expected to be able to understand the real social, political, and economic problems of Africa. Zimbabwe, the Great Lakes, the Sudan, Somalia, West Sahara and Mauritania are currently the greatest political problems in Africa, and which the new American Administration may help to solve by giving a new and different contribution.

In the economic sphere, Southern Africa is expected to get most of its support in Agriculture and in the internal capacity of transformation and more just trade agreements that will help increase and improve the African participation in the world economy. In regard to the public aid to development, the new administration does not have any chance to increase it, due to the dramatic financial situation of the Country. Probably the malaria, tuberculosis and HIV-AIDS programs will continue to be the priority areas for social intervention of direct financial aid from the United States of America.

The legislative election organized in September 2008 is the most relevant internal political fact witnessed in Angola. The overwhelming victory of the MPLA (81.6% of votes against 10,4% of UNITA) will immediately result in a greater responsibility in the resolution of the serious poverty situation, hunger, social injustice, distribution of wealth and revenue, and the living conditions of the population in general, who are the voters. The social indicators are very negative (poverty rate is over 60%, unemployment rate is over 25%, life expectancy is 41,7 years and the infant mortality rate is 26%) and its improvement in four years will require great determination, transparency and rationality in the use of the fiscal oil resources in decline, notion of priority and readjustment in some of the electoral promises made. The eradication of poverty and squandering has to be an inflexible program, with the denunciation of the wrongdoers. In summary, this is one of the standards of the electoral program of MPLA.

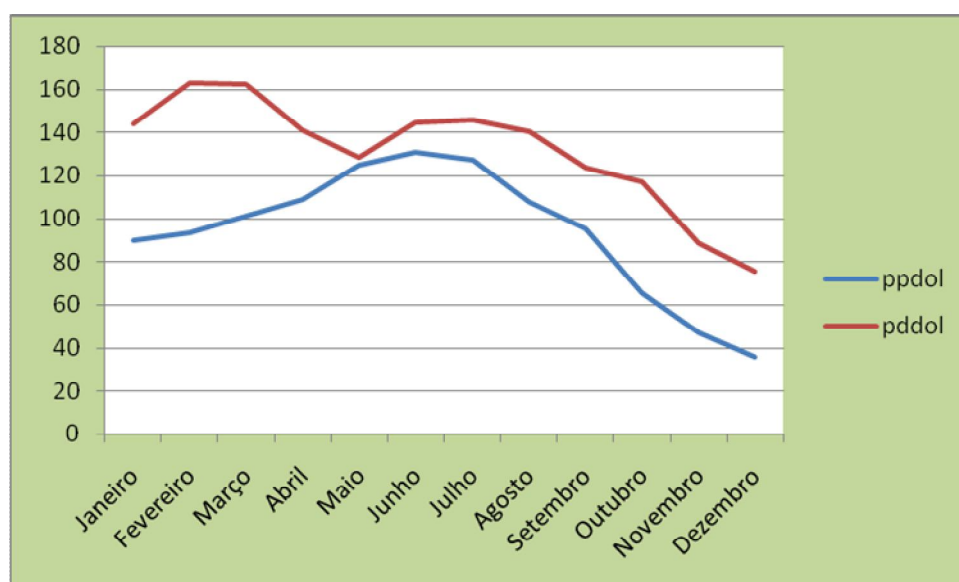
#### **1.1.- The macroeconomic stabilization**

The end of 2008 (from July) was particularly adverse for the Angolan economy, and this reality affected the foundation of macroeconomic stability of the Country. In various paragraphs of this Economic Report we call attention to the fact that as long as

the country remains dependent on oil as it is now, it will be hard to assert the sustainability of macroeconomic stability. The growth of the non-mineral sectors, the densification of the network of inter-sectorial relations, the development of scientific research and technology, innovation and high qualification of the manpower are the only basis that can provide sustainability to economic stability and help to build a resistance system against certain external infectious forces, such as the current financial and economic crisis.

After August 2008, the price of oil and diamonds started a striking fall, and was it not the reserves that the government had accumulated in the previous months, thanks to the high prices of the first commodity, the Government programs should have collapsed.

THE BEHAVIOUR OF OIL AND DIAMOND PRICES IN 2008



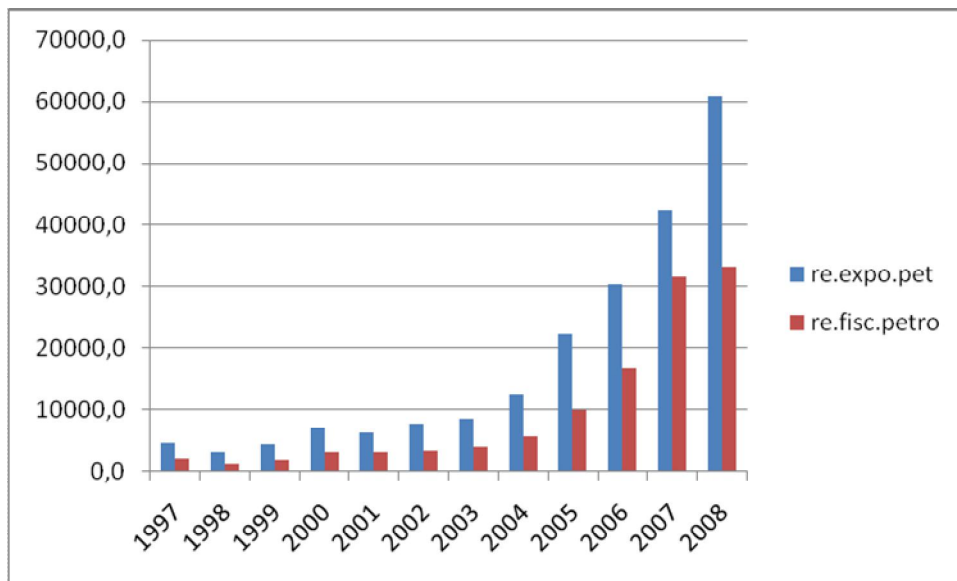
**SOURCE:** Ministry of Petroleum and Ministry of Geology and Mines

**NOTES:** ppdol – Price of oil barrel in dollars; pddol – price of the karat of diamond in dollars.

In December, the price of oil had registered a fall of 60,3% and the diamonds a reduction of 68,4% in reference to January 2008.

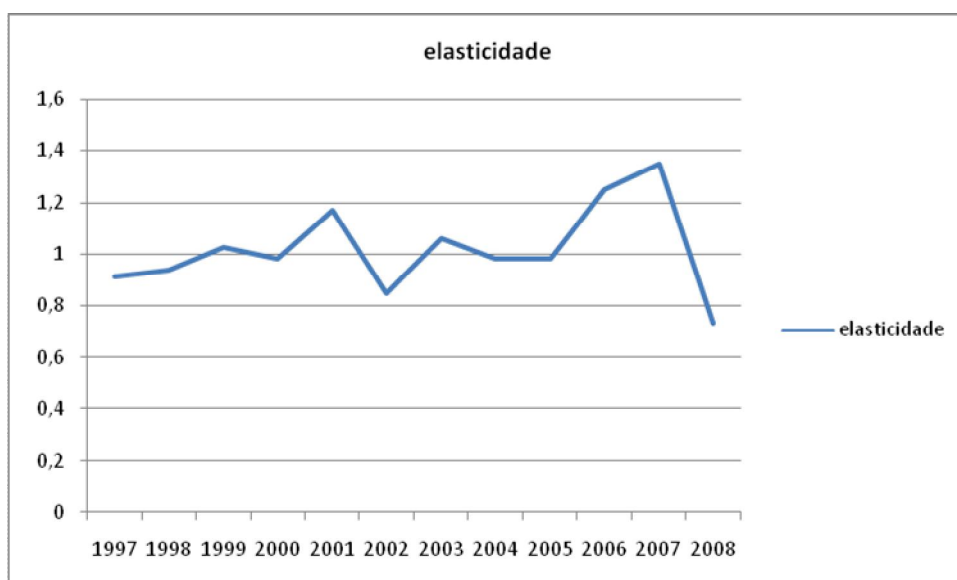
It is therefore not a surprise that the exports revenues and the fiscal revenues incident on the exploration of these minerals had diminished, despite the fact that the production had increased in terms of annual average, 12,3%.

#### FISCAL AND EXPORT REVENUES FROM OIL



**SOURCES:** Ministries of Petroleum and Finance.

An attentive reading of the previous graph shows that the efficiency of the fiscal revenues from oil has been varying along the years. Thus, comparing the variation rates of each one of the variables in reference, we notice very particularly that it is in 2008 that less fiscal revenues is collected. The following graph presents the evolution of the scope of fiscal revenues from oil compared to the export revenues from the crude.

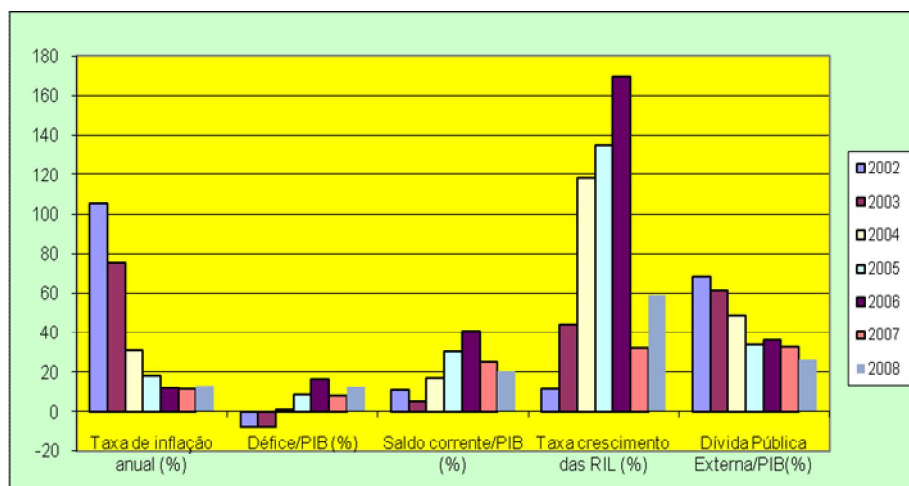


**SOURCE:** CEIC, Macroeconomics team.

In regard to the macroeconomic fundamentals the international financial and economic occurrences had an influence on us, and here we stress the rise of inflation rate,

the subtraction of the current account balance with the exterior, and the rise of the fiscal deficit. In the positive side, there is the reduction of the external public debt ratio and the growth of the international cash reserves.

#### MACROECONOMIC FUNDAMENTALS



**SOURCE:** Comparative Macroeconomic Table, CEIC, The Macroeconomics Team.

The reduction of the international cash reserves ( in November 2008 its value was over 20 billion dollars) after December and accentuated from January 2009; it has two causes<sup>9</sup>: The reduction of the exports value due to oil price/quantity effect in the international market, and the maintenance of the cambial value of the kwanza in relation to the dollar, in order to ensure the fulfilment of the objective to keep higher levels of trust in the national currency, which was only achieved due to a considerable reduction of the levels of inflation after 2003.

The issue of reflection is the following: What is the most important thing in an expected situation of crisis of the Angolan economy in 2009? Keep the Kwanza strong or carry out a policy of devaluation adapted to the availability of currency that the economy acquires along, and the development of the international financial and economic crisis? The answer is, certainly debatable and depends a lot on the time the world economic crisis persists. In case it recovers already in 2010, as sustained by some international financial institutions and some of the leading economists, the determination of the Government to protect the external purchasing power of the national currency may be acceptable. This argument may still be strengthened by the crisis circumstance of the world exports, and consequently, it is much better to facilitate the internal process of re-stabilization of the industry and agriculture.

<sup>9</sup> However, there seems to be other reasons behind the reduction of the international cash reserves related to the payment on account of various fiscal charges of the treasury.

However, in a medium term perspective, a strong kwanza does not help to establish favourable expectations to exports and consequently, the diversification of production.

The Angolan National Bank has been complementing the package of monetary policy, intended to prevent the devaluation of kwanza in relation to the dollar, with the rising of the discount rate and the level of mandatory bank reserves. These measures will shorten the access to bank credit for consumption and for investment and contribute to the increase of the interest rate. The consequences over the private initiative and enterprises, which help diversify the economy, will naturally be negative. An eventual collateral effect of these monetary measures for the reduction of excessive kwanza bills in the economy may be increasing the selectivity of bank credit, by funding only the projects with the highest marginal efficiency of capital. This result would improve the efficiency of economic growth.

Nonetheless, the reduction of the International Cash Reserves is a bad sign in relation to the creation of an internal capacity to resist the effects of the international financial crisis. One of the parameters to measure this resistance capacity is surely, the stock of international reserves. The others are obviously, the positive balance of the current transactions, the deducted fiscal deficit, the inflation rate and the volume of foreign debt.

The prospects for 2009 is a tendency for a reduction of the positive balance of the BTC (that will eventually turn negative, all depending on the variation of oil prices and the OPEC decisions to reduce supply), the increasement of foreign debt, the reduction of the RIL and a greater price instability.

Therefore, the devaluation of kwanza seems to be inevitable in 2009. The contrary may be considered as an economical error.

Nevertheless, everything will depend on the dollar in relation to other stronger currencies such as the Pound Sterling and the Euro. The prospects point to a depreciation of the American currency, considering the serious economic situation of the United States of America (the expected recession for 2009 is -4,0% with a high probability to extend to 2010) but also due to the need to boost the American exports in order to counterbalance the loss of private consumption of the families. In addition, the low pegging of the dollar decreases the value of its foreign debt, a situation that obviously interests the Obama Administration. Therefore, the proposal of the president of the Central Bank of China on the need to create a new currency of international reference, but immune to the stock exchange speculations is relevant. China is the greatest credit provider of the United States with an overall debt estimated in 1 trillion dollars. On the other hand, the majority of the Chinese investments in the world and its loans to Africa are in dollars, thence, the fear for instability of the American currency.

Thus being, strengthening the dollar in relation to the kwanza may be in contradiction with the international behaviour of the American currency.

# BEHAVIOUR OF THE MONETARY AND BUDGETARY AGGREGATES

AGGREGATES	2002	2003	2004	2005	2006	2007	2008
Fiscal revenues of OIL /GDP(%)	31,0	28,2	28,3	32,3	33,8	37,1	39,8
Total revenues /GDP(%)	40,4	37,5	36,8	40,7	42,2	45,7	47,6
Public expenditure /GDP(%)	47,9	44,7	35,7	32,2	32,3	34,4	35,2
Index of variation M1(%)	130,5	82,9	51,9	62,6	51,2	49,7	79,2
Index of variation M2(%)	159,1	66,3	41,5	55,5	57,3	38,7	70,5
Exchange rate of reference (usd/kz)	41,70	79,08	83,44	80,78	80,26	76,48	75,17

SOURCES: Ministry of Finance and the National Bank of Angola

As a negative aspect, we point out the excessive monetary growth symbolized by M<sub>1</sub> and M<sub>2</sub>.

## 1.2.- The sector of real economy

The remarkable growth rates registered in the recent years contributed to elevate the tendencial growth rates of the national economy, as demonstrated by the following table:

### REAL AND TENDENCIAL ANNUAL GDP GROWTH RATES IN (%)

COUNTRIES	1989-98	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Tx.ten
Angola	0,3	3,2	3,0	3,1	14,5	3,3	11,2	20,6	18,6	20,9	13,6	9,95
Botswana	6,5	7,2	8,3	4,9	5,7	6,4	6,6	4,7	3,4	5,7	5,3	5,87
Mauritius	5,9	4,6	7,2	4,2	1,5	3,8	4,8	3,1	3,6	4,2	6,6	4,49
South Africa	1,4	2,4	4,2	2,7	3,7	3,1	4,9	5,0	5,4	5,1	3,8	3,78
Nigeria	3,4	1,5	5,4	3,1	1,5	10,3	10,6	5,4	6,2	5,9	6,2	5,37
Equat-Guinea	26,9	24,1	13,5	61,9	18,8	14,0	38,0	9,7	1,3	21,4	7,4	20,58
Gabon	4,8	-8,9	-1,9	2,1	-0,3	2,4	1,1	3,0	1,2	5,6	3,9	1,11
Congo	3,0	-2,6	7,6	3,8	4,6	0,8	3,5	7,8	6,2	-1,6	9,1	3,77



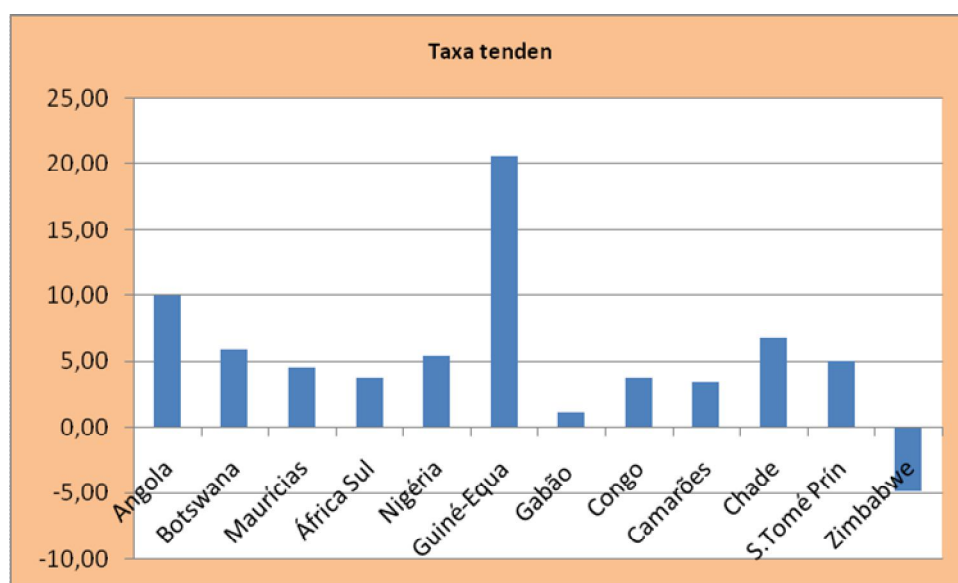
<b>Cameroon</b>	-0,3	4,4	4,2	4,5	4,0	4,0	3,7	2,3	3,2	3,5	3,8	
<b>Chad</b>	3,5	-0,7	-0,9	11,7	8,5	14,7	33,6	7,9	0,2	0,2	0,4	3,38
<b>S.Tome e Príncipe</b>	1,3	2,5	0,4	3,1	11,6	5,4	6,6	5,7	6,7	6,0	5,8	6,78
<b>Zimbabwe</b>	2,9	-3,6	-7,3	-2,7	-4,4	-10,4	-3,6	-4,0	-5,4	-6,1	n.a	4,97
												-4,88

**SOURCE:** World Economic Outlook, April 2009, International Monetary Fund; Regional Economic Outlook, Sub-Saharan Africa, October 2008, International Monetary Fund.

The critical situation in Zimbabwe, that have been systematically registering negative economic growth rates and aggravated with annual inflation rate of about 100.000 %.

Excepting the Equatorial-Guinea, all other oil producing countries of the Gulf of Guinea presented weak economic results, Gabon and Cameroon are on the lead, our competitors in the Economic Community of the Central African States (CEEAC) and Nigeria, all having very low tendencies of long term growth. In 2008 Nigeria, Equatorial-Guinea and Chad continued at the bottom of the ranking of the corruption perception Index. In terms of the “*Mo Ibrahim Governance Index*”, in 2008 the bottom was reserved to Angola, the Sudan, Chad and DRC.

In regard to the tendency of economic growth rate (Geometric average of real GDP growth rates registered between 1989 and 2008) Angola appears as the second best from previously selected Countries, and even in the whole African Continent, our country and the Equatorial-Guinea have been registering the best sequences of real variation of the economy.



**SOURCES:** The same as those of the previous table.

The Government had established that, for 2008, a target of 15,6% of the Gross Domestic Product, in constant prices of 2002<sup>10</sup>. The reasons for the maintenance of so high growth, although lower than those registered in the previous years are related to the high public and private investments and the positive expectations regarding the conduct of demand and the price of the main financial resource of the country, petroleum.

However, there remained many weaknesses in the supporting activities for running the economy ( such as low productivity of the public administration, and all associated systems: education, justice, and health, the low quality of the services delivered, the systematic lack of water and electricity, the inadequate transport network, the general business environment dominated by corruption and traffic of influence) that may hinder the high tendencies of the GDP growth. In summary, the international Statistics and the Mo Ibrahim Index, maintain our country in the lowest position in items related to good governance, transparency, and the strategic capacity of the Angolan private sector.

The CEIC estimates indicate a GDP growth rate in 2008 of about 13,6%, with the parciais of 15,2% for the non-oil GDP and 12,3% for the oil sector. The international monetary fund presents a higher estimate, 14,8% for the GDP, 11,9% for the oil GDP and 18,4% for the non-oil GDP<sup>11</sup>. The official available statistics<sup>12</sup>, indicate the GDP growth in about 13,8%. In any one of the instances, the growth is bellow the initial Government forecasts<sup>13</sup>.

Since 2003, the Angolan GDP was multiplied in 2,25, meaning that it is above the double, corresponding to an annual average variation rate of 14,4%, higher than that of China in the last 10 years. The GDP per inhabitant in current dollars, moved from 959 dollars in 2003, to 4961 dollars in 2008, an increase of over 5 times. Despite this performance, the great majority of the population remains in a permanent State of poverty, having to survive with less than 2 dollars a day. The injustice and inefficient distribution of revenue and wealth (expressed by a Gini index 0,62) explains the reason why the index of exclusion from the growth benefits of remains high.

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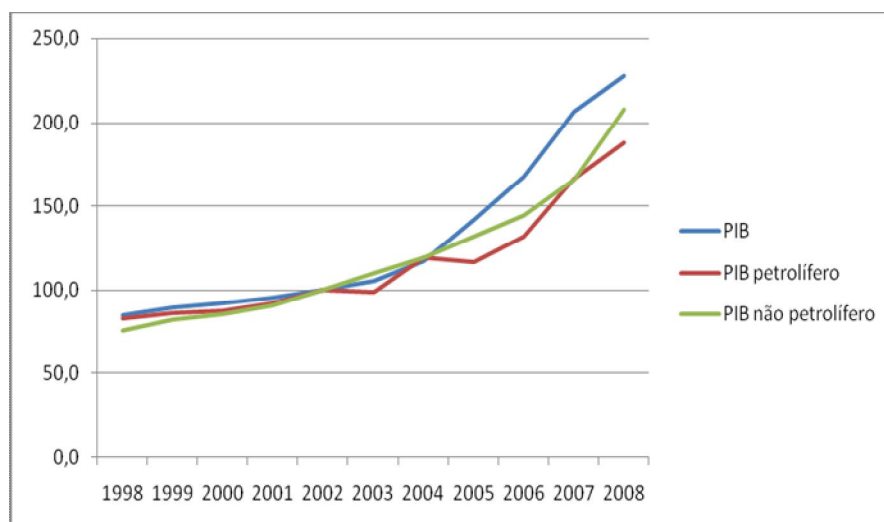
<sup>10</sup> Ministry of Planning -- the Government Executive Program 2009, June 2008.

<sup>11</sup> International Monetary Fund – Angola, Staff Report for the 2008 Article IV Consultation, March 2009.

<sup>12</sup> Balance Report of the Government Program, 2008.

<sup>13</sup> As will be shown ahead, the first signs of alert that the Angolan Economy would be affected by the world economic crisis started to be manifested in August 2008.

### GDP GROWTH RATES



**SOURCE:** Economic Reports of the previous years.

Other Economic Reports have already been presenting the CEIC perspective about the high GDP growth rates that Angola has been presenting in the previous years, after the resolution of the internal military conflict. The main thought is essentially that:

- The growth has not been generating a proportional improvement of the population (due to the model of wealth constitution and the distribution of the national revenue);
- The costs associated to the intense variation of the general level of economic activity have been high and badly distributed;
- Essentially, the economic structure remains the same, with the mineral economy representing over 55% of the total GDP;
- And, the macroeconomic stabilization achieved has not yet a solid foundation provided by the national non-oil economy (agriculture, manufacture, various services) and by the scientific, technological, and the innovation capacity<sup>14</sup>.

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<sup>14</sup> Naturally, corruption levels interfere with the the models and policies of redistribution of wealth and the national revenue. Ian Isaksen and Odd-Helge Fjeldstad identify different forms of Governments to intercede for more transparent practices. See Anti-Corruption Reforms: Challenges, Effects, and Limits of World Bank Support, pages 16 and 17, World Bank, 2008.

This is to say that, there is a high risk of returning to smoother growth of about one digit, even if it is close to 10%, (and probably more adequate to our current management and absorption capacity) after all this post conflict euphoria and opportunities provided by a war torn country are drained.

Furthermore, it seems that the Government itself is aware of these risks, by acknowledging in the various guideline documents of its governance a tendency of slowing down the growth of the national economic activity. Thus, the GDP growth rates for 2007, 2008 and 2009 respectively are, 23,3%, 13,8%, and 11,8%. The same tendency of conduct was defined for the non-oil economy: 25,7%, 15,0% e 16,3% respectively.

These numbers show that the elections did not affect the trust that the investors and the international institutions already had with the country. The expectation of private agents (before the Government determination to continue investing on the rehabilitation of the infrastructure and the constitution of human capital, as well as ensure that the political process is as transparent as possible) apparently continue in force. The entrance movement of foreigners continues to grow and requests for the establishment of new businesses have been increasing considerably.

Nevertheless, there is a need to assess the effects of the world crisis on this internal dynamics<sup>15</sup>. Though the credit of the bank system to the economy continues to grow, there have been, however, signs of constraints in repaying the loans for the acquisition of real estate and for investment in the productive sector. It seems that the banks are now analyzing more carefully the request for funds to the economy and to the private sector, and check more deeply the suitability of the loaners<sup>16</sup>.

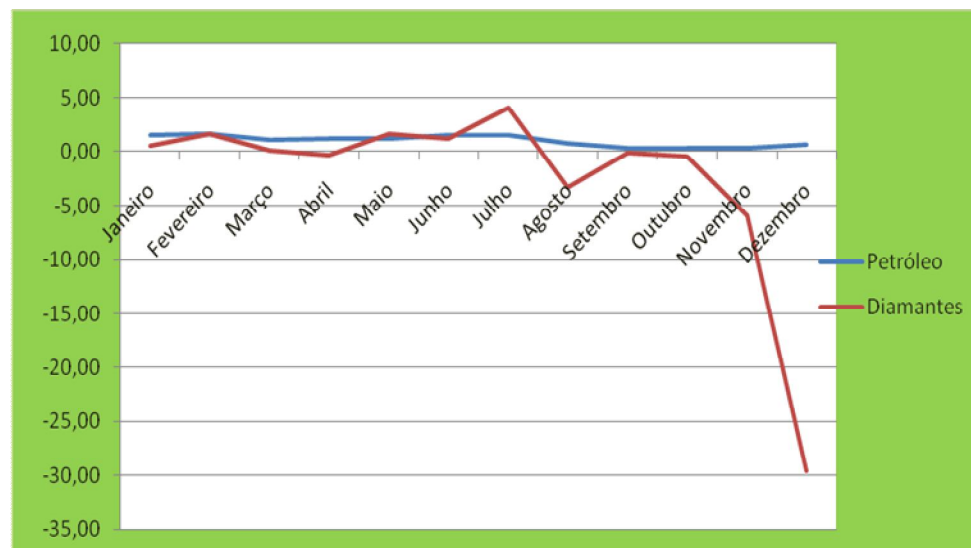
The signs of the effects of the international economic crisis on the Angolan economy started to be visible from August 2008, with the fall of prices and the exported quantities of oil and diamonds, which had a reflection on the respective growth dynamics.

#### MONTHLY GROWTH RATES

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<sup>15</sup>The world economic crisis brought an assurance to economies such as the Angolan which is plunged into a sickly dependence on mineral resources and promote social inequalities: The diversification of the economy is unavoidable for overcoming the times of economic contraction. In paragraph 2.2. some considerations about the diversification of the Angolan economy are discussed and are presented indicators of diversification of the productive structure.

<sup>16</sup> In recent public declarations, Fernando Teles, chairman of the Administrative Council of Bank BIC stated that: *“There are many fraudulent businessmen, that is why we have to be courageous and sagacious enough to evaluate the projects and deny those that do not offer us any guaranty. There are many businessmen who appear to have a good reputation in society, they have good cars, big houses, but who try to crook the banks. There are crooked businessmen. We the Bankers have to support the honests. Those who desire to work.”* Semanário Expansão, 27 March 2009, page 16.



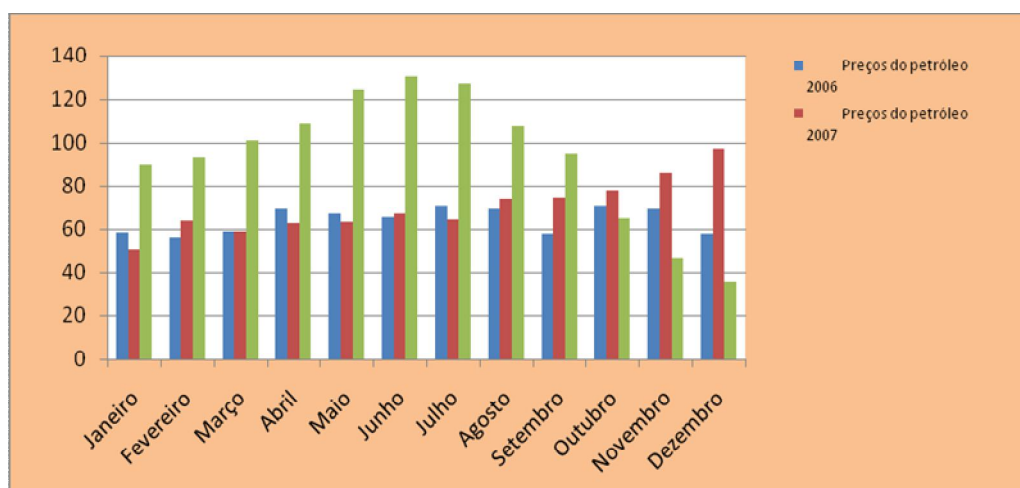
**SOURCES :** CEIC, Macroeconomics Team.

In fact, from the second semester of 2008, the regression tendencies of the two main funding sectors of the national economy became clear, with the diamond mining activity presenting a “*hard landing*” (an expression of Paul Samuelson) in December. The growth rate of the diamond mining GDP in the last month of 2008 was -29,63%. The decrease of oil exploration was smoother: 1,65% in July and 0,6% in December.

The causes for this striking decline are certainly found in the retraction of international demand of the two products. But, in the same way, the prices were largely touched by the world economic recession.

It is interesting to compare the price behaviour of the oil barrel between 2006 and 2008.

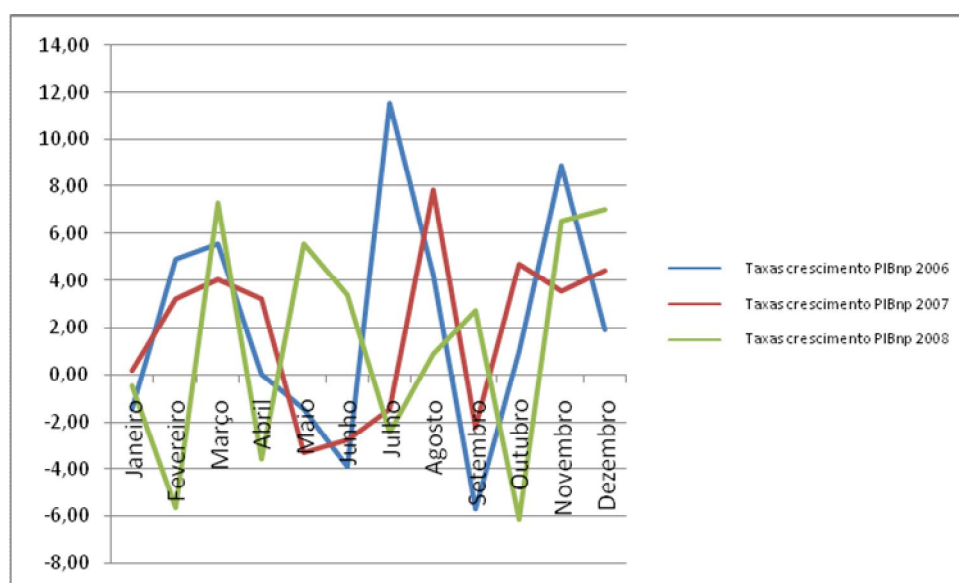
**PRICES OF THE OIL BARREL 2006, 2007 E 2008**



**SOURCE:** Ministry of Petroleum.

The Agriculture and Manufacturing sectors (which in normal running conditions of the economy appear as the checks and balances of contractions in the enclave sectors) did not work very well, having registered very low growth. Agriculture stagnated in 2008 (the GDP variation rate was only 1,86%) and the manufacturing did exceed 11%, well bellow the achievement in the previous years.

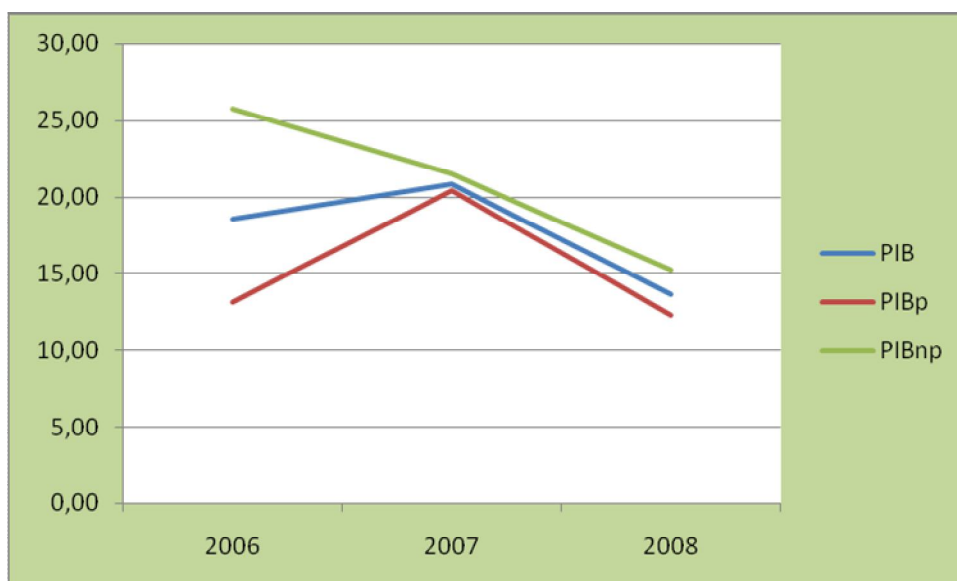
**GROWTH RATE OF THE NON-OIL GDP IN 2006, 2007 AND 2008**



**SOURCE:** Ministry of Planning.

In relation to the tendencies of diversification of the economy, it happens that the non-oil GDP presents a falling annual growth rate, between 2006 and 2008.

#### ANNUAL GROWTH RATE



**SOURCE:** Ministry of planning.

**NOTES:** PIBp – Petroleum GDP. PIBnp – Non- Petroleum GDP.

The main focus of reflection on the future economic growth of Angola is based on the productivity and in its reflex, competitiveness. The economic growth observed between 2002 and 2008 with less intensity ( was essentially of a quantitative nature, which benefited from a high rate of global saving, with incidence on foreign loans and on the direct foreign investment, particularly in the oil, diamonds and building construction sectors.

But the systematic resort to foreign loans (just in the first months of 2009 were confirmed 1 billion dollars from China, other unknown amount from Germany, and the next amount is coming from Portugal) will surely worsen the country's foreign debt, in face of the serious internal saving deficits, though the State has presented excedentary budgetary amounts between 2005 and 2008<sup>17</sup>. With the fall of the value of diamond and oil exports, which will go beyond 2009, it is likely that the settling of the current transactions may present a deficit, and the compensation will be the increasemet of the country's foreign debt.

The lack of productivity and competitiveness of the non-oil economy (which limits its capacity of acquiring export markets), added to the insufficiency of internal saving, may raise an economic situation not favourable to the growth of the GDP, already affected by the climate of world economic crisis. The increasement of competitiveness of agriculture, manufacture, and fisheries (just to mention the transactional sectors) depends largely on significative increments in labour productivity.

<sup>17</sup> According to the IMF, the settling of public debt was (in percentage of the GDP): 7,3% in 2005, 14,8% in 2006, 11,5% in 2007, and 12,4% in 2008.

The ways and means to create a structural competitiveness are known, and include the innovation of products and processes, by the qualification of businessmen and manpower, by the quality of private and public institutions and by far-sighted leaderships. But the results are only visible in medium term. One of the ways to improve productivity in short term in reducing employment, a proposal that no one will be interested in.

For the employment not to reduce, the principal synergies should be turned to the building construction sector, specially to public infrastructure works. The small works represent a highly positive cost-benefit ratio. On the contrary, the big undertakings are more deficient in the relation investment-job creation, and therefore, should be an object of specific and thorough study on the expected benefits, from the social and economical point of view.

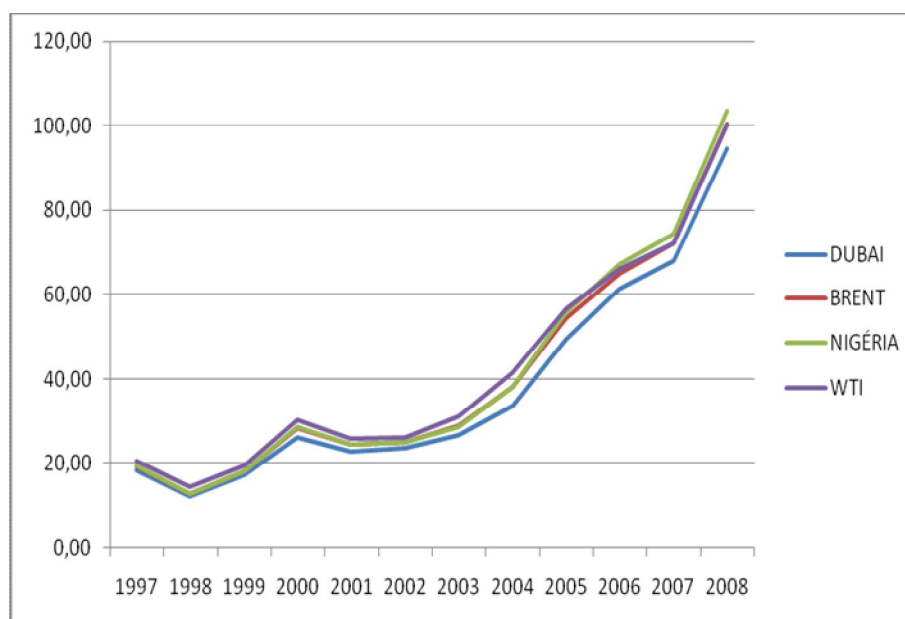
### **1.3.- The Oil Geography in Southern Africa**

One of the most visible consequences of the economic crisis is the amazing fall of the oil price in the international markets. After rising to the price of 147,5 dollars per barrel in April 2008, at the end of the same year it established around 35 dollars a barrel.

For the '*black gold*' exporting countries (which had rapid growth and huge accumulation of cash due to the escalate of prices from 1999) this situation starts to cause damage. It is not surprising, however that OPEC is nervous, because its member States are absolutely afflicted with the loss of their revenues, so necessary to maintain some social and economical programs. This is the reason for the successive decisions to decrease the production.

#### **THE BEHAVIOUR OF THE OIL PRICE AFTER 1997**





SOURCE: BP Statistical Review of World Energy, June 2008. For 2008, adapted by CEIC.

At the end of 2008, the oil price reduced drastically, with its minimum having been registered around the Christmas (31,41 dollars a barrel of the Brent), after it had reached the peak of almost 150 dollars a barrel in July. The average price of the Brent in 2008 was 100,53 dollars a barrel, and for 2009, and according to the International Energy Agency, we do not expect a price that is beyond 40-45 dollars a barrel<sup>18</sup>, a price that is far bellow the minimum amount for some producing countries to implement social and economic projects.

The successive falls in oil prices from the second semester of 2008 were due to the expectation about the effects of the financial crisis on the real economy of the most developed countries of the world, which came to pass with the economic recession in the United States of America and in the main economic powers in the European Union, in the third quarter of 2008. Furthermore, the clear reduction in oil demand in the world contributed dramatically to the falling down of the price of crude oil. Still, according to the International Energy Agency, the most recent estimates on the international oil demand are 84,7 million barrels a day.

Therefore, it is evident that the reduction in production will have above all, the effect of adapting the supply to the demand, than stimulate the prices higher. The increase of oil prices and other commodities will only happen when the signs of recovery of the world economy are clear and deserve the trust of the financial and economic agents; unless any political events and the break-down of oil reserves may cause a more or less permanent lack of supply in the market.

<sup>18</sup> International Energy Agency – World Energy Outlook, 2008.

Angola continued to be the second greatest oil exporter in the South of the Sahara and after Nigeria, and may maintain this position for a long time, considering the fact that this country is highly engaged in the resolution of the Niger Delta issue (through the realization of multilateral consultations with the most direct protagonists of the conflict) and president Umaru Musa Yar'Adua, elect in April 2007 to replace Olesegun Obasanjo uses a more inclusive policy in regard to the partition of the revenues from oil exploration.

The issue that continues to deserve a reflection is the dominion of the *pick oil* in the Gulf of Guinea, a region chosen as an alternative to the Persian Gulf in order to lessen the United States and European dependence on the oil from the countries of that region. According to some opinions, (Word Bank<sup>19</sup>), Angola will have its point of reflection in 2011-2012, and in 2025 the fiscal revenues from oil be situated at its lowest level of all times.

The producing countries of the whole world, but particularly the African countries, believed in the stories that were been told by some analysts and experts who predicted the end of cheap oil. These analyses were based on the growth of demand caused mainly by the evolution of the great emerging economies. Many Countries designed huge reconstruction programs, supposing that oil would be eternally expensive. However, there is a question in the air: How will the prices of commodities behave, including oil, after the recovery of the world economy from this crisis?

#### CERTIFIED OIL RESERVES IN SOME COUNTRIES OF THE GULF OF GUINEA

COUNTRIES	RESERVAS COMPROVADAS EM 2007			PRODUÇÃO PETRÓLEO EM 2007			Number of years
	10 <sup>6</sup> barrels	Quota mund.	Quota Africa.	10 <sup>6</sup> barrels	Quota world.	Quota Africa.	
ANGOLA	13500 <sup>20</sup>	1,1	20,2	628,9	2,1	29,2	21,5
NIGERIA	39100 <sup>21</sup>	2,9	58,5	859,9	2,9	40,0	45,5
THE SUDAN	6600	0,5	9,9	166,8	0,6	7,8	39,6
CHAD	900	0,1	1,3	52,6	0,2	2,4	17,1
CONGO	1900	0,2	2,8	81,0	0,3	3,8	23,4
GABON	2000	0,2	3,0	84,0	0,3	3,9	23,8

<sup>19</sup> World Bank – Angola, Country Economic Memorandum , October 2006, pages 55 and 56.

<sup>20</sup> Average between the BP and EWG estimates.

<sup>21</sup> Average between the BP and EWG estimates.

<b>CAMAROOM</b>	350	0,0	0,5	29,9	0,1	1,4	<b>11,7</b>
<b>IVORY COST</b>	425	0,0	0,6	55,0	0,2	2,6	<b>7,7</b>
<b>DRC</b>	300	0,0	0,5	35,0	0,1	1,6	<b>8,6</b>
<b>S. TOMÉ E PRÍNCIPE</b>	425	0,0	0,6	25,0	0,1	1,2	<b>17,0</b>
<b>EQUATORIAL-GUINEA</b>	1800	0,1	2,7	132,5	0,4	6,2	<b>13,6</b>
<b>AFRICA SOUTH OF THE SAHARA</b>	66800	5,2	100,0	2150,6	7,2	100,0	<b>31,1</b>

**SOURCE:** BP Statistical Review of World Energy, June 2008. Energy Watch Group, Crude Oil Outlook, Revised Edition, February 2008.

#### 1.4.- Poverty

Poverty is a world problem. Marty Sen.<sup>22</sup> – Nobel prize in economy 1998 and currently a professor at the University of Harvard (United States) –, have been one of the leading scholars of hunger in the World. He has certainly been influenced by the situation in his country of birth, India.

It is not only the poor and underdeveloped countries that are facing the poverty phenomenon. Be it in lower or higher levels, the developed economies have this problem as well. Portugal is the Country of the European Monetary Union with the highest poverty rate calculated in about 20% of the population, and also with the most imbalanced distribution of revenue (information of 2004)<sup>23</sup>. France has a poverty rate of 12% of total population, Italy is around 15% and United States of America about 10%. Here poverty has also a racist face, affecting mainly the black population.

There are at least 4 factors that may contribute for the structuring of the national and world poverty.

The first factor is economic globalization, not followed by the globalization of citizenship. The positive effects of a growing world economic integration have been facilitating, in a very unequal proportion, the most developed economies of the planet. Ultra-liberalism and the tariff and non tariff restrictions to international free trade imposed by the most industrialized economies, have been appointed as some of the most important reasons for the imbalances in the distribution of world revenue. Joseph Stiglitz, in the famous statement on the consequences of globalization, denounced it as one of the determinant factors for economic retardation and inequalities in the levels of life amongst the countries and within both the developed and underdeveloped human societies<sup>24</sup>. More recently, this 2001 Nobel prize in economy proposed policies and measures that will make globalization more efficient –unavoidable, because it

<sup>22</sup> Sen, Amartya - Pobreza e Fomes, Terramar, 1999 and O Desenvolvimento Como Liberdade, Gradiva, 2003.

<sup>23</sup> Bruto da Costa, Alfredo (coordinator) – Um Olhar Sobre a Pobreza em Portugal, Gradiva 2008.

<sup>24</sup> Stiglitz, Joseph - Globalization and its Discontents (Norton & Company, Inc., New York, 2002)

corresponds to a new stage in the development of world economy – in order to enable a better distribution of its undeniable advantages.<sup>25</sup>

The second is that of poverty amongst the employees. It starts to come to the fore that even amongst the wage earning workers, both the self employed and those working for someone else, there is also a prevalence of poverty. This reality threatens to discredit the thesis that overestimate the relation reduction of poverty-employment creation-economic growth. It has already been a well known fact, that economic growth does not automatically always means more employment. For the moment, it starts to be perceived that the move from the condition of unemployed to that of employed does not consequently eliminate poverty. That is, acquiring an employment is not longer a condition *sine qua non* for reducing poverty, and here are the facts: In France, the number of poor employees increased in 21%<sup>26</sup> between 2003 and 2005. In this year, the poor employees represented 6,4% of all French workers. This situation is not exclusive to France. Portugal is the country of the European Monetary Union with the highest rate of poor employees. Same situation happens in Italy, in the United Kingdom and in the United States of America.

The third factor is that of intensity of poverty. The assessment of the welfare of poor people and families allows to conclude that their financial situation have been deteriorating – the difference between their average income and the poverty line have been increasing – that is, the poor are becoming poorer. For the countries of the European Monetary Union, the poverty line is different from that considered by the United Nations, which establishes 10 dollars a day, something like 300 dollars a month. Imagine if this limit of income is applied to Africa and to us: probably over 90% of the population would be poor.

The fourth and last factor is related to the general living conditions of the population. Even in the families with an average income above the poverty line, there have been serious constraints in their capacity to pay the rent, the school for their children, water and electricity, and the acquisition of certain goods, such as meat, milk, cloths, etc., after all, these are basic and essential goods (unfortunately, this is not a strange thing to us).

The world scenario of poverty is disturbing<sup>27</sup>: In 2005, 3935 million human beings (over 42% of the total population of the planet) lived(?) with less than 2 dollars a day. In Africa South of the Sahara 945 million poor in 2005, a percentage of 77% of its total population. This is absolutely distressing.

The future does not seem to bring changes to this situation. On the contrary, the World Bank projects a quantitative of 941 million poor South Saharan Africans in 2015

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<sup>25</sup> Stiglitz, Joseph - Tornar Eficaz a Globalização, Edições ASA, 2007.

<sup>26</sup> Alternatives Économiques, Juin 2008.

<sup>27</sup> World Bank, World Economic Prospects, 2009.

(with less than 2 dollars a day), corresponding to a poverty rate of 78,5%. These prospects of the World Bank did not take into consideration the distressing effects of the world economic crisis that will affect the most vulnerable population, and bring more people into the universe of the poor.

What is happening in Africa and in the World then? With the exception of 2007 and probably 2008, the World economic growth have been very acceptable, but apparently, not the sufficient to improve the living conditions of the population, and thus running the risk of structuralizing the situation of unemployment and poverty. In Africa South of the Sahara, the statistics of GDP growth have also been positive since 2004, but, once more, insufficient to mitigate poverty, and not mentioning to revert it.

There are some known studies based in temporal analysis or cross-section, that acknowledge increasingly that the quality of economic growth has a great influence in reducing the situations of poverty. In fact, equality of opportunities and improvement in the distribution of revenues are essential factors for success of the strategies to reduce poverty. Thus, the macroeconomic stabilization – which relative success amongst us has been taken to exhaustion, forgetting that in economy the maintaining of fundamental balance is difficult, complex and subject to influences outside our control – must be focused on sustainable economic growth, the improvement in the distribution of revenues and the promotion of equality of opportunities.

Ravi Kambur of Cornell University and one of the greatest world experts on poverty puts the strategic focus in his analysis for reduction, in the mechanisms and policies of redistribution of wealth and distribution of revenues. In the social and economic processes of reshaping the national product are not reformed, it will be very hard for economic growth to be source of improvement of the populations life. This economist emphasises also the fiscal aspects as important for a consequent approach to poverty eradication, stressing the need to have a fiscality that is protective of the income of the poorest population.

The poverty rate in Angola (that which is statistically registered by the 2002 survey on family incomes and expenditures) is 68,2%. The results of the 2008 study on family income and expenditures are still to be published and awaited with great anxiety. We expect that the results may in fact be shared with the Angolan civil society. Some general indicators seem to show some improvements in certain attributes of the living conditions of the population; however, it remains bellow the limits of some of our fellow countries in SADC<sup>28</sup>.

#### **SOME INDICATORS OF THE LIVING CONDITIONS OF THE POPULATION**

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<sup>28</sup> African Development Bank – Annual Report 2008.

INDICATORS	Angola	South Africa	Botswana	SADC
HDI (2006)	0,484	0,670	0,664	0,541
Life expectancy (2008)	43,1	49,5	51,0	49,5
Infant mortality rate (2008)	130,0	43,8	44,7	77,4
Maternal mortality rate (2005/07)	1400	110	380	619
Access to potable water (2006/07) (%)	51	93	96	70
Access to sanitation (2006/07) (%)	50	59	47	46
Female primary school rate (%)	201	103	113	119
Male primary school rate (%)	187	93	112	114
Adult illiteracy rate (%)	31,0	12,0	17,1	22,8

SOURCE: African Development Bank, Annual Report 2008.

For our country, the following changes have been registered: HDI of 0,446 in 2005, to 0,484; Life expectancy of 40,7 years in 2004, to 43,1 years; Adult illiteracy rate of 32,6%, to 31%; Access to potable water 53% in 2004, to 51%; Access to sanitation 31% in 2004, to 50%; Primary school rate 61,5% in 2004, to 194%.

The value of -33 in the difference between the HDI and GDP positions per inhabitant (in parity to the purchasing power), means a very high loss of opportunities to transform economic growth into social progress, and this incapacity is being repeated year after year.

Thus, the consequences brought about by the economic growth are contradictory (in terms of accumulated between 2000 and 2008 the rates for overall GDP, Oil GDP, and the non-Oil GDP were respectively of 184,6%, 155,5% and 208,9%) had an impact on the living conditions of the population, and the evidence is the maintenance of the value of poverty rate (40,2% in 2006, 40,3% in 2005 and 40,9% in 2004).

The budgetary issues, may also be mentioned as factors of reduction of a greater impact of the reforms, of growth and of macroeconomic stability on poverty, living conditions and employment. It is known that control and public expenditure are two powerful government instruments to introduce adjustments in the economic allocation of resources, accommodation in the distribution of revenues, changes in the fundamental macroeconomic equilibrium and impetus to economic growth. Obviously, the effects may be pernicious if used inadequately.

Between 2002 and 2008, non-oil control grew about 6,2 times (about 35,5% a year), which means that through the direct way (taxes over income) and through the indirect way (taxes over the transaction of goods) the population was penalized.

Evidently, this assertion is discussable in different areas. The first refers to the fact that the income of poor population is not subject to any direct fiscal imposition,

which is true. Therefore, here there may not have been a punch to the poor people's income. If this is the case, then the progress that occurred in the non-oil control during the period under study may have affected the more relatively smaller Angolan medium class in a more incidental manner. Furthermore, the deterioration of their living conditions may have been increased by the excessive cambial valorisation of the kwanza.

The second assertion is related to the fact that the transactions of the informal market (where the poor population purchases its supplies) escape all forms of taxation and this is exactly due to its submersion. Meanwhile, after an analysis to the supplying sources of this sub-economy, we notice that the imports (subject to the current customs tariffs) and the internal production (subject to consumption tax and other indirect tributary incidences) the two exclusive sources of supply, and taking us to the conclusion that there was a penalization of the income of poor people.

Whatever it may be, the fiscal structure should have stressed the issue of equity, although maintaining the principle of fiscal neutrality (which does not distort the rational of resources and factors related to the market). The charging of direct and indirect tribute to the population must be adequate or adjusted to its capacity to pay taxes, in order for the benefits taken from the public and semi-public assets to be proportional. To what extent is this accentuated increase of non-oil control explains, in part, the fact of the population not feeling completely the benefits of control over inflation?

The State transfers to the families in the form of reforms, allowances, and children benefits (that increase the available income of the poor population) are very insignificant, considering that, the constitution of the general system of social providence is still in a very embryonary phase. The annual amount of the GSB (General State Budget) is for the civil servants, the State military and paramilitary personnel. The current legislation provides for the constitution of retiring insurance for the private, and relegating the discounting scheme to free choice. For the poor population, it is difficult to subtract any amount from their monthly income, because we are talking about amounts that are less than two dollars a day.

No substance is taken to the previous statements, the fact that in 2008 the number of tax payers to social security increased (30,6%) and the quantity of pensionists (7,1%), since the coverage of the system is much reduced. In reality, in terms of total population, the number of contributors is only 0,12%. In regard to the beneficiaries of pensions, the quantitative, in 2008 it did not represent more than 2,6% of the elderly population of the country. The average amount of the paid pensions to each one of the 74160 pensioners in 2008 was 290 dollars a month (almost 10 dollars a month)<sup>29</sup>.

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<sup>29</sup> In 2007 this average monthly amount was 245 dollars per pensionist, and in 2006 it was 214 dollars. As a result of the devaluation of the dollar in the Angolan cambial market, the real value of these pensions decreased in the course of this period. The analysis of the behaviour of pensions in national currency indicates an increase in the respective purchasing power, 2,6% in 2007 and 4,7% in 2008.

## THE APPROACH TO THE BEHAVIOUR OF POVERTY IN ANGOLA IN THE RECENT PAST YEARS

YEARS	Poverty rate (%)	Poor population	Population	Real growth rate GDP per inhabitant (%)
2003	67,7	10503,7	15507,1	2,2
2004	66,0	10539,1	15956,8	8,2
2005	62,6	10275,6	16419,6	17,2
2006	59,7	10081,4	16895,7	15,3
2007	56,5	9820,1	17385,7	17,5
2008	54,7	9784,2	17889,9	10,4

SOURCE: CEIC – Scenarios of poverty reduction in Angola, 2008, the Macroeconomics Team.

Comparing with the estimates presented in the 2007 Economic Report (page 27), we notice that some corrections have been introduced due to the fact that the economic growth caused a spill over effect of part of the revenues generated in this process. The most cunning or talented, who gravitated in the frontier between the lower and the poor classes, were able to get the best from this window of opportunity, and thus leaving the lowest classes of income some external signs of improvement in the living conditions (such as own vehicles, long life consuming goods, the boom in access to private secondary education and higher education, some sophisticated clothing, the proliferation of cell phones, etc.) are sufficient to presume for these effects of social enlargement of the effects of economic growth.

This means that the spill over effect may have caused a reduction of the number of poor people. But, certainly those who remained poor, must have witnessed a considerable worsening of their conditions.

Nevertheless, in terms of daily average income, there may have occurred two movements of contradictory directions. One upwards, for levels of incomes superior to 2 dollars a day; another downwards, for average incomes inferior to 1,25 dollars a day (the new limit of the World Bank for extreme poverty), and thus increasing the number of people in the situation of absolute poverty<sup>30</sup>.

However, as we will see in the pages to follow, in 2005 the Gini index registered was 0,62 (if it is not the highest of the world, it is certainly amongst the highest of the

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<sup>30</sup> What will happen if the country economic growth occurs in a rhythm of 7–8% a year? The indexes registered facilitated the contamination effect. The inferior rate of 10% ensure a significant spillover effect, if the conditions of distribution of revenues and participation of the opportunities remain the same. In these circumstances, the social coesion and national reconciliation would be under threat.



planet) an indication of the occurrence of a very huge asymmetry in the distribution of the national revenues. We remind that the highest growth rates of the Gross Domestic Product occurred from that year, which implies the existence of a correlation between the worsening of social inequalities/increase of the annual national revenue/increases of poverty. This probability (or even working hypothesis for the estimates on poverty rate) determined the construction of another scenario of possible behaviour of this phenomenon in our country<sup>31</sup>.

#### ANOTHER SCENARIO OF POSSIBLE EVOLUTION OF POVERTY IN ANGOLA

YEARS	Poverty rate (%)	Poor population	Population	Real growth rate GDP per inhabitant (%)
2005	68,7	11280,8	16419,6	17,2
2006	69,0	11655,2	16895,7	15,3
2007	69,3	12049,2	17385,7	17,5
2008	69,5	12433,1	17889,9	10,4

SOURCE: CEIC – Scenarios of poverty reduction in Angola, 2008, the Macroeconomics Team.

The generalized reduction of agricultural production (this sector of activity grew only 1,86% in 2008), with the stress on the growth of roots and tubercles and fishing (-2,4% in 2008), increased the constraints for the rural population to survive, resulting in a greater incidence of the poverty situation in those areas.

Nonetheless, some of the results achieved by the Government are potentially likely to reduce poverty in long term, if consolidated in the future.

Such results were the following:

- Intensification of the production of all kinds of meat, milk and eggs;
- The raising of the water supply capacity to 81,6%, although the population continues permanently and systematically complaining about difficulties of access to it;
- The increment to 66,5% of the penetration rate of users of fixed telephones and cellphones;

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<sup>31</sup> In case this fear is confirmed and poverty conditions aggravates for the poorest classes, the result is the datum published in the balance of implementation of the Government general program for 2008, about supplying of food and other items to vulnerable people: 7337000, 17811870, 23139430 metric tones, in 2006, 2007 and 2008 respectively. The target population in these years was of 742929, 1412496 and 1560205 cityzens.

- The generalized increase in the transport of passengers and cargo, enabling a greater circulation of people and goods in the whole territory;
- Construction and equipping of schools and classrooms;
- Augmenting of the gross school rates, which were: 135,8% in the primary (127,1% in 2007) and 22,5% in the secondary (20,4% in 2007);
- Increase in 6,3% of the number of students enrolled at all teaching grades, with the stress on the secondary level, where the increase was of 17%;
- The diminution of the number of children outside the school system;
- The training of teachers;
- Rehabilitation and construction of many infrastructures of health, in the whole national territory;
- General improvement of the instruments for the diagnosis of citizens health;
- Increment of the number of training activities and refreshments for workers (16%).

The reduction of poverty depends equally on the raise of the average national wage that the intense growth of the GDP has to permit. It is also the responsibility of the businessmen to implement practical strategies to boost the gross labour productivity, in order to increase the sharing coefficient between labour and capital, and the profits of productivity. The businessmen, especially the foreigners, can not limit themselves in recovering their investments in the minimum possible time. They have to take serious the modern thought that associates entrepreneurial development with social responsibility. The majority of foreign businessmen consider Angola presently as the new money making tree. Robert Bosh, (founder of the Bosh business empire known all over the world) stated: *"I do not pay good wages because I have a lot of money; I have a lot of money because I pay good wages"*<sup>32</sup>. It is a challenge to the classic macroeconomic relation which equates the value of the marginal productivity of labour to salary. For Bosh, higher wages are the source for the increment of productivity.

Another way to analyze political commitment with poverty reduction in the country is through the budgetary sums allocated to the sectors directly linked to this calamity.

## BUDGETARY ALLOCATION TO SOCIAL SECTORS

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<sup>32</sup> Economic Supplement of the *Semanário Expresso*, 5 July, 2008.

YEARS	EDUCATION		HEALTH		SOCIAL WELFARE		HOUSING		TOTAL	
	%GDP	% total	%GDP	% total	%GDP	% total	%GDP	% total	%GDP	% total
2004	2,8	7,3	1,8	4,8	1,0	2,7	0,9	2,3	6,5	17,1
2005	2,2	6,3	1,5	4,3	5,2	14,8	1,0	2,9	9,9	28,3
2006	2,4	6,0	2,0	4,9	5,0	12,3	2,2	5,3	11,6	28,6
2007	2,9	8,4	1,8	5,3	5,5	15,9	1,8	5,3	12,3	35,6
2008	2,7	7,0	1,8	4,7	3,6	9,3	1,1	2,9	10,8	28,0

**SOURCE:** Ministry of Finance, implementation Reports of 2006, 2007 and 2008.

In 2008 there was a general reduction of expenditures of social incidence that may contribute to the creation of a proper environment for a sustainable reduction of poverty. In general, public expenditure with the improvement of the living conditions of the population diminished its weight on the GDP, changing from 12,3% in 2007, to 10, 8% in 2008. The average social and public expenditure moved from 420 dollars per inhabitant in 2007, to 506 dollars for each citizen in 2008. In any circumstance, this means insufficient social expenditure, considering the great social demand of primary collective goods, and the incidences of the world economic crisis<sup>33</sup>. The nominal variation of 20,5% was inferior to the increase, of current prices in the market and the GDP (about 28,6%).

The actions of most immediate impact over the reduction of certain hard conditions of the poor population are related to health, and social welfare, where the Government allocated in 2008 , only 5,4% of the GDP (corresponding to 11,7% of the total public expenditure).

The actions of long time effect (education, housing, community services) received only 7,4% of the GDP in terms of allocation budgetary sums.

The ambitious habitation program of building one million houses by the end of 2012 is , evidently, structural for the reduction of poverty, in the sphere of improvement of living conditions (the access to appropriate housing is a constitutional right) and related to job creation and income generation. Nevertheless, as acknowledged by senior institutions, it is a complex challenge. A million houses until December 2012 means a daily average of 745 houses per day, in a more or less general context of lack of building materials. Another adjacent issue is related to the criteria of access to the so called social

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<sup>33</sup> According to the Budget Implementation Report, 2008, the social providence increased 50% in nominal terms. However, its weight on the GDP remained in 1,5%.

houses<sup>34</sup>, anticipating a series of bureaucratic obstacles resolved through bribery and corruption.

In the 2007 Economic Report we suggested some actions through which the economic integration of the poorest population would be promoted in order to ensure that they feel as full time citizens of an oil producing country that, in a situation of economic crisis are important dampers of unemployment and poverty increment:

- The generalized attribution of scholarships to primary school students, so that the quantity of children outside the school system diminishes and facilitate the generation of competent manpower in the future<sup>35</sup>;
- Generalization of school feeding and improve qualitatively its protein and energy content; This is an indirect way to increase the available performance of poor families;
- Increase the unitary amount of the retirements and pensions which average in 2008 was about 450 dollars a month;
- Distribution of a basic food basket to the poorest families; this will augment their available performance and apply it in other important areas of their work in society.

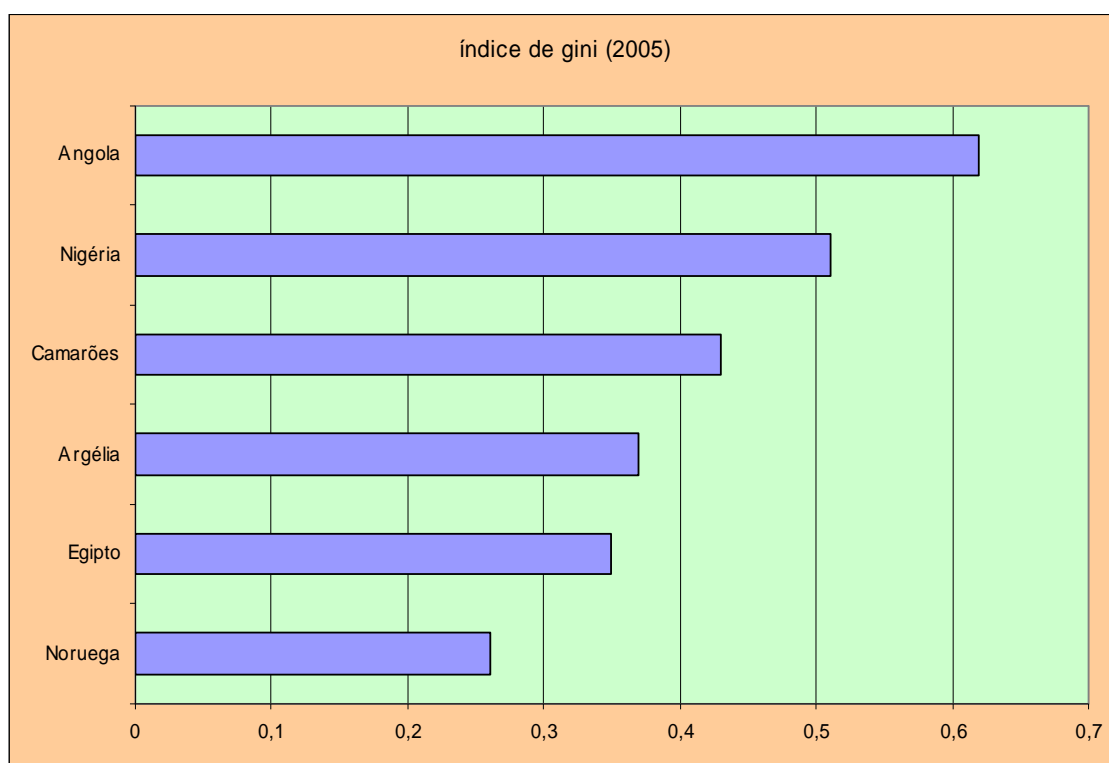
The Gini index calculated for our country in 2005 was 0,62, as it is being mentioned in previous pages<sup>36</sup>.

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<sup>34</sup> There is a disagreement as to the way the citizens are dealt with in relation to the right to access housing. There has been a reference to the characteristics of social houses for the low income citizens, in order to ensure that such houses have **the minimum living conditions**. What this houses should provide are **normal living conditions**, otherwise there an implicit distinction of first class, second class and third class citizens. The reflexive exploration of this problematic would raise the question as to the reasons for the existence of a class of citizens whose normal living conditions include private swimming pools, inner house gardens, Jacuzis, Gold painted bathrooms, etc., luxuries that cost at least three million dollars per residence.

<sup>35</sup> This measure used to be designated as Family Grant.

<sup>36</sup> World Bank – Angola, Country Economic Memorandum, page 8, October 2006.



**SOURCE:** The World Bank, Country Economic Memorandum, October, 2006.

The inequality existent in Angola is 2,5 times higher compared to that of Norway<sup>37</sup>. The social reflexes are immediate. There is more citizenship in Norway, people respect each other and respect the codes of social conduct. Consequently, there is more space to the affirmation of merit. The moral reprove of dishonest acts and deviation of conduct works, and sometimes with deeper effects than legal persecution. Norway is the richest Country of the world and only got its independence from Sweden about 100 years ago.

The known scenarios of poverty reduction in the world present very asymmetric results between different regions of the globe. For some, the reduction of poverty will be a long term concrete reality (by 2015), even if with different dynamics of reversion. For others, the poverty phenomena will prevail at long term. This is the information provided in the following table.

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<sup>37</sup> It is worthless to compare it with Nigeria, Algeria and Cameroon. The benchmarks must be those of the developed countries.

## SCENARIOS OF POVERTY REDUCTION IN THE WORLD

(Millions of people)

GEOGRAPHIC SPACES	People with less than \$1,25 dollars a day			People with less than \$2 dollars a day		
	2003	2005	2015	2003	2005	2015
East Asia and Pacific	213	316,2	137,6	745	728,7	438
People's Republic of China	179	207,7	84,3	531	473,7	260,9
Europe and Central Asia	9	17,3	14,3	71	41,9	26,7
Latin America and the Caribbean	49	45,1	30,6	134	91,3	72,4
Middle East and North Africa	5	11,0	8,8	62	51,5	33,3
South Asia	472	595,6	403,9	1131	1091,5	959,5
Sub-Saharan Africa	320	388,4	356,4	530	556,7	585,0
<b>WORLD</b>	1065	1373,5	947,2	2673	2561,5	2115,0

**SOURCE:** Global Economic Prospects, the World Bank, 2009.

The fact that Sub-Saharan Africa is not able to reduce poverty (is the only region in the globe whose quantity of poor population will increase by 2030, in terms of the population living with less than 2 dollars a day) this should be taken as a warning and an alert to the Angolan government and the whole society, since the reversion of this social and economic calamity is a responsibility and obligation of all citizens.

## 2.- THE INVOLVING CONTEXTS OF THE NATIONAL ECONOMY

### 2.1.- The international context

The world has been subject to contradictory influences which dictated the dramatic change of the international economy in 2008. As mentioned in the introduction, there were many warnings from various internationally acclaimed personalities, starting from Nouriel Roubini (from the University of New York) and George Soros, to Robert

Shiller, from the University of Yale and one of the most far-sighted analysts of the international financial crisis.

A broad evaluation of the impact of credit crisis will only be possible in the middle of 2009. The leading experts argue that only then will we know whether we are dealing with a cyclic recession or with something more serious, which can take the unemployment in the United States to two digits. The issue of trust and expectations will be crucial for dealing with the crisis: If the people are convinced that the worst is still to come, then the probability of the situation to be even more dramatic will be very high.

Between 2002 and 2007 the world economy grew in an average annual rate of about 4,5%, an extraordinary score which allowed many countries to reduce in a sensitive manner, some of the worst social development rates. The previous value had a very important contribution of the emerging countries, and from these, China, Russia, India and Brazil are distinguished. It was this extraordinary growth that ended up permitting the financial excess which caused the profound financial crisis that surfaced in September 2008.

The growth models used during that period were very different amongst the countries. The developed economies (mainly the United States, Japan and the European Union) focused their strategies in the increase of growth efficiency, through innovation (financial, production, product), by competitiveness, technology, and by risk (favouring competition and the search for cheaper and more profitable solutions). The resort to investment was not sufficient to implement high rhythms of economic growth, not only because of the height of the starting background, but also, because the saving rates were very low. Therefore, the growth factors in these economies were qualitative, in order to face the competition with the emerging countries, with the stress on China and India.

On the Contrary, the growth models applied in the emerging economies were of a quantitative nature (raise the food quantities produced and the goods of general consumption, without an excessive concern for quality, in order to reduce the hunger gap and the general living conditions of the population) using the high saving rate available (China is the country with the highest saving rate in the world, about 40% of the Gross Domestic Product), the tremendous flow of capital that those economies demanded, with high and unusual rhythms of economic growth, and the abundant availability of natural resources. The growth was much easier to achieve in relation to the developed economies.

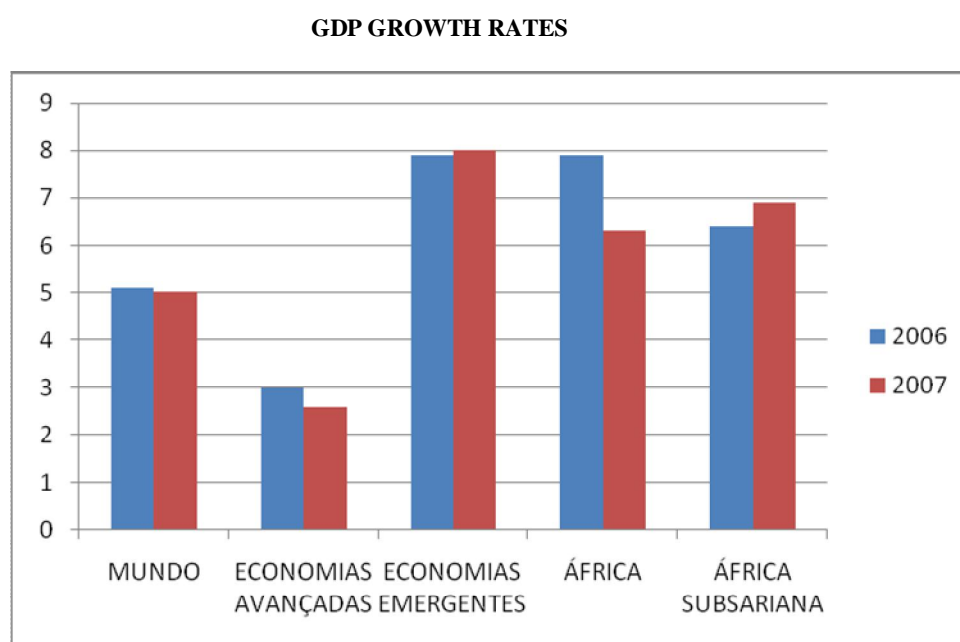
As a consequence of the Americans to have taken their monetary policy too far, (laxist, less wise and based in private equity and hedge funds, monopolized by the search for fast enrichment) originates the financial crisis, which immediate result was on the economic growth of the developed economies that moved from stagnation to an economic recession. The other world economies were very quickly contaminated by the economic retraction of the developed economies of the planet, with the prices of raw materials and other high level commodities registered until the middle of 2008, went into

a deflation. As examples of this height volatility is the case of oil, diamonds, and food items.

As mentioned previously, in 2006 and 2007 the world performances were fantastic, confirming the economic cycle started in 2002.

The world economy practically grew 10,4% in accumulated value of the two years, while the emerging economies grew in 16,5%.

The African economy presented the following results: 14,7% for the whole continent and 13,7% for the sub-group South of the Sahara.



SOURCE: IMF World Economic Outlook, October 2008.

In 2008, the estimated results are the following<sup>38</sup>:

- World economy: 2,8%;
- Advanced economies: 1,0%
- United States of America: 1,4%;
- Euro Zone: 1,1%;
- France: 0,8%;

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<sup>38</sup> International Monetary Fund – World Economic Outlook, Update, January 2009.



- Japan: - 0,3%;
- Developed Asian Economies: 2,1%;
- Emerging Economies: 6,3%;
- China: 9,0%;
- Russia: 6,2%;
- Brazil: 5,8%;
- Sub-Saharan Africa: 5,4%.

The scenario ahead is dramatic, because it has never happened that 63% of the World be in recession at the same time. Such is the current weight of the North American, Japanese and European Union Economies on the World GDP.

#### **2.1.1.- The developed economy**

In regard to the behaviour of the oil price during 2008 (having reached a peak of 147,5 dollars per barrel and an average price of 100,2 dollars, according to calculations of the International Monetary Fund<sup>39</sup>) the world economy grew about 3,4%, strongly dragged by the Chinese, Indian, Russian and Brazilian economies, as we can see in the statistics presented in the table below.

#### **THE DEVELOPED ECONOMIES IN REVIEW**

<b>COUNTRIES</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>World Economy</b>	3,5	4,0	3,7	2,8
<b>USA</b>	3,2	2,8	2,0	1,4
<b>Japan</b>	2,6	2,4	2,1	-0,3
<b>Euro Zone</b>	1,3	2,9	2,6	1,1
<b>European Union</b>	1,8	2,8	2,7	1,1

**SOURCE:** Catholic University of Angola – Economic Report 2006 and 2007; IMF – World Economic Outlook Update, January 2009; World Bank – Global Economic Prospects, 2009.

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<sup>39</sup> International Monetary Fund - Regional Economic Outlook, Sub-Saharan Africa, September 2008.

Taking into account the World GDP (in which the United States participate in 30,2%, Japan with 11,8% and the European Union with about 25%) the conclusion is that the contribution of the developed economies for the growth of 2,8% in 2008 was only 0,66 percent (against 1,7 percent in 2007), having the emerging economies, particularly China, India Brazil and Russia responded for 2,44 percent (0,8 percent in 2007). On one hand, This variations suggest that the emerging countries resisted better the start of the international economic crisis in 2008 and, on the other hand, that the centre of gravity of the world economic growth is moving into the side of the emerging economies.

The stronger growth of China (over 9% in 2008) played a determinant role in the favourable performance of the world economy ( its contribution was 0,81 percent), and was the champion of the developing economies.

The United States of America owed the regression of their economic growth in practically 30% from 2007 to 2008, to the consequences of the real estate subprime crisis and the fall of the stock exchange pegs of the majority of industrial and financial companies of reference. The infection over the economy of decapitalization of the banarian system was dramatic, although the most pungent effects will only be felt in 2009.

In Japan, after some years of lethargy, the recovery seemed to have been started in 2006. However, in 2007 there was a decrease in the intensity of economic growth and the Japanese economy showed signs of recession. The fall of exports, due to the retraction of the developed economies has been one of the most visible consequences of 2008 crisis.

The Euro Zone has not resisted the financial crisis from the other side of the Atlantic. After some years reasonable growth, in 2008 it registered a weak performance, translated into the diminution of 1,5 percent in the growth of its respective GDP.

The world ranking of these economies was established as follows:

#### **WORLD RANKING OF THE DEVELOPED ECONOMIES**

<b>COUNTRIES</b>	<b>1980</b>	<b>2004</b>	<b>2005</b>	<b>2007</b>
<b>USA</b>	1	1	1	1
<b>Japan</b>	2	2	2	2
<b>Germany</b>	3	3	3	4
<b>United Kingdom</b>	5	4	4	5
<b>France</b>	4	6	5	6
<b>Italy</b>	6	7	7	7

**SOURCES:** The World Bank – Global Economic Prospects, 2007, 2009 and World Economic Indicators, 2009

### 2.1.2.- The emerging economies

Despite the environment of pre-world economic crisis, in 2008, China was once more the most distinguished from the group of emerging economies. With a GDP variation rate of 9% (one of the highest in the world), China stood as the first emerging economy and rose to the third place in the world ranking of the greatest economies of the planet. The dimension of its internal market was able to appease the fatal effects of the fall of exports that occurred in the end of 2008.

#### ECONOMIC GROWTH OF SOME EMERGING ECONOMIES

(%)

COUNTRIES	2006	2007	2008
CHINA	11,6	11,9	9,4
ÍNDIA	9,7	9,0	6,3
BRASIL	3,8	5,4	5,2
RUSSIA	7,4	8,1	6,0
ARGENTINA	8,5	8,7	6,6
DEVELOPING COUNTRIES	7,7	7,4	6,3

SOURCE: World Bank – Global Economic Prospects, 2009.

In general, all countries of the previous sample were not able to curb some of the pernicious effects of the 2008 world financial crisis, where the rhythm of the GDP annual variation had decreased after 2007.

In 2008, Brazil maintained practically, the same rhythm of economic growth of the previous year to the positive balance of its external position, thanks to the exports (the relative valorisation of its currency, the Real, diminished the value of the imports), to the direct foreign investment and the measures for economic stabilization, despite the rise of fiscal deficit and the interest rate continual limited attraction of the local businessmen.

The major problems for the Brazilian economy, raised by the international crisis are going to happen in 2009, expecting a reduction to 2,8% of the economic growth rate.

China passed almost safe and sound through the 2008 international financial crisis, with the GDP growth rate maintaining its average rhythm of the past, about 10%.

### **2.1.3.- The African economy**

The economic growth of the continent, especially that of the sub-region below the Sahara have been a subject of stressed reference in the reports of the main international development agencies. Between 2002 and 2007, the annual average variation of the GDP was about 5,5%, which means that the national income per inhabitant increased more than 14% during that period. Even if it is below the commitment to reduce in 50% the poverty rate by the year 2015, as agreed in the context of the United Nations Millennium Goals (the minimum GDP variation rate agreed by NEPAD is 7,5% a year) the tendencies presented are hopeful, and this caused the increase of the financial flows – public (APD) and private (IDE) – for the continent. This is one of the facts systematically mentioned in the reports of the international development agencies, as being good news from Africa.

Secondly, the decrease of military conflicts, or at least the low intensity of some conflicts, has been another mentioned factor behind the political and economic evolution of the African continent. Without political stability and peace it is not possible to articulate the political and economic instruments and implement processes of economic growth. Where there is military conflicts (internal or border conflicts with neighbours) economic growth has been very little intensive, hindering thus, the beginning of the process to improve the living conditions of the populations. The movements of refugees and displaced people worsen the humanitarian situation of the citizens and retard their inclusion in the economic recovery of their countries.

In the third place, the tendency to consolidate the political systems and the democratic processes is another improvement mentioned in the reports of the international agencies from different origins. Evidently, there are still persisting diversions and aberrations of this project, considered as normal in the political development of the peoples. The Zimbabwe issue may be considered a paradigm of the elementary violations of the principle of democratic social intercourse amongst the citizens, and the respect for the fundamental human rights. This country is seen as one of the stray sheep of the African democratic flock, and the amazing inflation rate of 500000% registered last year is one of the advanced evidences for the complete divorce between the State, the population and the economic agents.

Fourth, are the validity, utility and opportunity for the respective processes of economic growth, of macroeconomic policies and the African business strategies. The globalization and the growing integration of Africa in the international market have been “forcing” the Governments and the African companies to adopt the most modern management methodologies and production technologies, in order to better face the highly ferocious and disputed international competition. The African competitiveness is being won by competing in more structured and stronger markets, even if in some cases, it benefits from the chances provided by the most advanced economies, as is the case of AGOA.

Finally, the management and the macroeconomic reforms. The international agencies related to the world economic development are unanimous in acknowledging the fantastic changes occurred in the African continent as a whole, although with focus on some countries considered as standard. One of the reasons indicated for the success of the African economies is surely the practice of a wise and clear macroeconomic management, and the respect for the international standards and theories on the limits of the fiscal and monetary policies. This situation (new, if we consider the macroeconomic visualization standards used largely in Africa in the past and which deserved less positive appreciation from these institutions) is in part attributed to the new generation of African leaders, politically committed with democracy and economically with the development and improvement of the living conditions of the populations.

From the 48 African countries surveyed by the annual publication of the World Bank, *Doing Business* 2009, 10 are mentioned as trying to carry out drastic changes in the institutional systems of private and entrepreneurial business. It points out South Africa, Botswana, Namibia, Ghana, Kenya, Nigeria, Uganda, Rwanda, Tanzania and Mozambique. The creation of an adequate business climate is seen by these agencies as the factor that has attracted more foreign investment into the African Continent, which in turn, is appointed as one of the factors for the economic growth of some countries of the African continent. These international agencies believe that these items are absolutely fundamental for the African countries to face successfully the challenges of rapid and abundant creation of employment, diversification of the economy and the reversion of poverty. Angola does not appear in these items as a country of reference.

A singular aspect pointed out in these reports is the relationship present-future, investment-saving-consumption, current generations and future generations. That is, the countries' vision, strategic planning, and the long term strategy. Many African countries are distinguished, such is the case of South Africa, Botswana, Rwanda and Nigeria. For these reports, these countries have a vision for the future and a strategy to get there, which is determinant for the agglutination of the whole society, attraction of investment and, and giving hope to the citizens.

Some countries mentioned as having strategic vision are in the process of revision of their long term strategies, not only because their probably close to the end of the established calendar, but also because of the incidences of the current international financial crisis. After the reversion of the crisis, nothing will be the same as in the past, given the depth and width of the financial, economic, social and institutional losses associated. Thus, these countries undertook to start a new cycle of restructuring and updating their respective visions and long term strategies.

Despite these expressive advances, Africa will still continue to be subjected to a series of obstacles occurring negatively in its process of sustainable economic growth. In Africa, issues related to funding for development are known and exist for a long time. In the area of funding sources for the economic development of the Continent, NEPAD identifies the external saving, the public aid to development and the foreign investment,

as the most relevant for covering its needs. This new partnership for the economic development of our continent proposes a greater and different involvement of the international community in the efforts for sustaining development of the continent, getting in return the adoption of more models of development management and more inserted into the world economy. Certainly, the external origins of the continent's funding is going to be affected, and broadly, by the tremendous difficulties that the international financial system is facing, with a dramatic fall of the inter-banking trust and an unusual and significative retraction in the sums for credit to the real system of the economy. The maintenance of the most recent GDP growth rate of the Sub-region of Sub-Saharan Africa will not be possible. The last adjustments put the average GDP growth rate for sub-Saharan Africa in 5,4% in 2008 (against 6,9% previously)<sup>40</sup>.

Between 1995 and 2001, the economic growth of this part of the continent occurred in relatively low rates, that did not consented neither any significative and nor sustainable improvement of the living conditions of citizens. These tendencies came to change in 2002 and 2007, particularly after 2005, with the registration of higher GDP growth rates. Average performances were achieved around 6,5% during those years (with extremely positive incidences over the reduction of poverty and the improvement of the living conditions of the population, to average demographic growth rates about 2,7%) justified by various factors with the stress on the increase of the international financial flows (loans, foreign investments, development aids - precisely the most relevant sources of development funding identified in the NEPAD), the significative improvement of the exchange terms -- that admitted an entrance of foreign financial resources -- of the remarkable progress of macroeconomic management -- considered by the international financial institutions --, in the transparency in the management of the State financial resources, the investments in infrastructure, and the investment in the capacity building of human capital. In other words, there was a consent that Africa was finally in the right path.

All of a sudden -- or maybe not--the world economy is affected by a dramatic financial crisis, of an extension and scope not yet conveniently evaluated. The economic History teaches us that Africa has always been the most affected with these situations of disturbances of the international system, and the continent that gets less advantages when the world economic growth is relatively consistent and sustainable, given its frankly periphery in the world economic system. How should the issue of development funding in Africa be put addressed in this international context, when in the most developed economies there is a growing climate of great mistrust between the agents of the financial

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<sup>40</sup> It is interesting to remind that, according to studies of the International Monetary Fund, the reduction of a percent in the economic growth of the trade partners of this part of our continent, creates a retraction of 0,5 percent in the variation of its GDP. With the perspectives of the world economy, there is a fear of returning to a past in which the Africans were sure of being able to overcome the situation.

system, and there is a constant revision, in a deep fall, the prevision of the GDP for 2009? What are the implications for the African continent amidst this climate of world economic recession?

Sub-Saharan Africa faces the following consequences about its model of development funding:

- Retraction of the fluxes of private foreign investment – which has been essentially channelled to the exploration of mineral resources, but with the registration of a change in the recent past years for the infrastructure, telecommunication and tourism.
- Diminishing of public aid to development (there is still many African countries that need it as vital force for funding the economy).
- Growing difficulties in the acquisition of foreign investments, before major or minor hindrances, weakening of the national banking system.
- Reduction of exports and decrease of the prices of raw materials.

#### 2.1.3.1- The strategic position of Angola in Africa

The last summit of the African Union evaluated the state of the art in terms of intra- African economic and trade relations. Even if the situation has not changed in the way the political leaders of the continent wanted, positive moves were registered, like the increase of imports and exports from Africa and to Africa, and with average annual GDP growth rates around 5,5%, between 2002 and 2007. The options for the African macro economic integration demand an investment in joint physical infrastructure such as roads, railways, ports, airports, energy and telecommunication. Without these foundations the African countries will continue to prefer exports to, and imports from outside Africa.

What is the real economic weight – from which may grow – the power of political influence – of Angola in the macro global context of Africa?

The international classification on the dimension of the economies chooses the value of the Gross National Income, in current prices or in parity with the purchasing power, as the most adequate indicator. In our analysis we have added three more: The gross national income per inhabitant, the quantitative of the population, and the tendency of growth rate between 1989 and 2007.

The great conclusion to take is that Angola, in 2007, was **the seventh greatest economy in Africa**, including obviously the strong economies from North Africa. Amongst 48 countries, Angola appears in the seventh position, which is remarkable and may confer to our country political conditions for a more effective and responsible

participation in conducting the destiny of our continent. The following table present the numbers for the selected indicators and referent to 2007.

#### ANGOLA AND AFRICA IN 2007

(Gross national income (GNI) expressed in billion dollars and the per capita in dollars; the population is in millions of inhabitants)

	South Africa	Nigeria	Algeria	Egypt	Morocco	Libya	Angola
<b>GNI</b>	274,0	137,1	122,5	119,4	69,4	55,5	43,6
<b>Per capita GNI</b>	5760	930	3620	1580	2250	9010	2560
<b>Population</b>	48	148	34	75	31	6	17
<b>Tx.89/07(%)</b>	3,6	4,8	4,0	4,0	4,0	4,0	9,6

**SOURCES:** The World Bank- World Economic Development Indicators, 2008; World Bank – World Development Report, 2009; International Monetary Fund – World Economic Outlook, October, 2007; The Catholic University of Angola – The Economic Report of Angola, 2007.

Although the previous table present only information about seven greatest African economies, we can say that – and since all other economies have been analyzed – Angola presents the greatest long term average growth rate (between 1989 and 2007), which means that in this period the Angolan economy was the most dynamic of Africa. Or, on the other hand, in 18 years the Angolan economy was the highest growing in annual average, amongst the seven greatest African economies.

It may seem paradoxical, considering the fact that during the internal military conflict the statistic references registered annual variation rates of 3% to 4%, not forgetting, on the other hand, that in 1993 our economy faced a great recession, manifested in a GDP growth rate of -24%. The explanation is in the growth rates achieved after 2000 and, particularly, after 2002, the peace year. Between 2002 and 2007, Angola achieved over the duplication of its Gross Domestic Product.

Reducing the continental space to Sub-Saharan Zone, the position of Angola improves considerably, and **our economy becomes the third greatest**, after South Africa and Nigeria, countries that have started the adventure of development a long time ago. Although Nigeria had faced a serious internal military conflict in the 60' – the Biafra war – was neither that long, nor so devastating as ours. South Africa used very well the international economic sanctions imposed on *apartheid*, building a strong internal industrial base to replace the imports, and which ended up putting the country in the position of number one economy in Africa.



## ANGOLA AND SUB-SAHARAN AFRICA IN 2007

(Gross national income (GNI) expressed in billion dollars and the per capita in dollars; the population is in millions of inhabitants)

	South Africa	Nigeria	Angola	Kenya	Cameroon	Ivory Cost	Tanzania
<b>GNI</b>	274,0	137,1	43,6	25,6	19,5	17,5	16,3
<b>Per capita GNI</b>	5760	930	2560	680	1050	910	400
<b>Population</b>	48	148	17	38	19	19	40
<b>Tx.89/07(%)</b>	3,6	4,8	9,6	3,6	3,4	0,3	5,7

**SOURCES:** The World Bank- World Economic Development Indicators, 2008; World Bank – World Development Report, 2009; International Monetary Fund – World Economic Outlook, October, 2007; The Catholic University of Angola – The Economic Report of Angola, 2007

In the SADC zone, our country has been having very participative performances in the process of economic integration. Its growth capacity is acknowledged in the region, which is benefiting the South-African investors. However, in terms of economic integration, there is a fear of walking too fast and bad. Converging criteria are defined amongst the different economies, expressed in the same indicators of the European Union and, also in the same values, and this seems a little bit out of place. For example, some SADC countries will hardly be in the condition of fulfilling the inflation target of 3-5% a year – the respective productive structures, unbalanced, weak, without inter-sectorial density, are not capable of absorbing internal or external shocks on the price of the products – or of fiscal deficit 3% of the GDP. The less developed the countries are, the greater are the needs of public and the investments and the State to develop a policy of support to the economic sector.

However, the great constraints – and consequently, caution – are in the cambial policy. There is the information that from 2020, SADC will enter into the process of creation of a single currency. If our country adheres to the SADC common monetary zone, must be concerned with two crucial issues for its competitiveness: The parity that may be established between the kwanza and the SADC single currency, and the differentials of inflation rate amongst the constituent countries. If the exchange rate is very high in favour of the single currency, and if the influence on the inflation rates is significative, Angola runs the risk of losing a lot of its already reduced external competitiveness. This is what happened with Portugal; the Euro-Escudo cambial relations were the highest amongst the member countries of the monetary Union. Consequently, there is a loss of external competitiveness, reduction of the purchasing power of the incomes, and the rise of prices by influence of the cambial relation. Consequences: The majority of the Portuguese people are convinced that their quality of life was affected by the adherence to the European single currency.

On the other hand, the process of affiliation to a single currency leads to the fall of the interest rates, and this makes indebteding much cheaper. This is also what happened in Portugal.

A single currency zone increases trade amongst the member countries, whose products circulate duty free or free of non tariff restrictive impositions. Considering that this countries have different productive and economic structures – where the stronger subdue the weaker, as is the case of SADC – it is important to think about mechanisms of compensation of the balances of payment of the member-countries. Otherwise, the weakest countries run the risk of accumulating successive deficits in their foreign accounts, giving rise to foreign debt, and this may be pernicious to economic development. This re-balancing mechanism would be allowed for the Country under risk of excessive foreign indebtedness to resume, temporarily some tariff restrictions to imports and concede during a limited period of time, some tariff restrictions, and subsidies to some exports. The time schedule of these mechanisms will last as long as the country in difficulties achieves a minimum equilibrium of its payment balance.

Therefore, Angola can not, ignore the previous situation, if it wants to strengthen its position as the **second greatest economy in SADC**, after South Africa.

#### ANGOLA AND SADC IN 2007

(Gross national income (GNI) expressed in billion dollars and the per capita in dollars; the population is in millions of inhabitants)

	South Africa	Angola	Tanzania	Botswana	Zambia	Namibia	Mauritius
<b>GNI</b>	274,0	43,6	16,3	10,9	9,5	7,0	6,9
<b>Per capita GNI</b>	5760	2560	400	5570	800	3210	5430
<b>Population</b>	48	17	40	2	12	2	1
<b>Tx.89/07(%)</b>	3,6	9,6	5,7	5,6	4,0	4,3	4,3

**SOURCES:** The World Bank- World Economic Development Indicators, 2008; World Bank – World Development Report, 2009; International Monetary Fund – World Economic Outlook, October, 2007; The Catholic University of Angola – The Economic Report of Angola, 2007

The convergence between the South African and the Angolan economies may be explained by the following statistical evidence: In 2000, the relation between the GDPs was eleven for one (the Angolan GDP was about 9% the South African GDP), while in 2007 this proportion was reduced to 6/1 (the Angolan GDP is worth 16,7% the South African GDP).

In the CEEAC region, Angola processes the whole economic hegemony in any considered indicator. Thus, our country is **the strongest economy** in this African region.

## ANGOLA AND THE CEEAC IN 2007

(Gross national income (GNI) expressed in billion dollars and the per capita in dollars; the population is in millions of inhabitants)

	Angola	Cameroon	DRC	Gabon	Chad	Congo	Ruanda
<b>GNI</b>	43,6	19,5	8,6	7,0	5,8	5,8	3,1
<b>Per capita GNI</b>	2560	1050	140	5360	540	1540	320
<b>Population</b>	17	19	62	1	11	4	10
<b>Tx.89/07(%)</b>	9,6	3,4	1,5	0,8	4,8	3,8	2,5

**SOURCES:** The World Bank- World Economic Development Indicators, 2008; World Bank – World Development Report, 2009; International Monetary Fund – World Economic Outlook, October, 2007; The Catholic University of Angola – The Economic Report of Angola, 2007

From this brief analysis it is possible to take the following conclusions:

- Angola is in fact, one of the greatest African economies, and if the Government continues to create appropriate conditions for the structural diversification, the valorisation of human capital, the free initiative, and the unlocking of the sectors, nothing will block our country from disputing political leadership in Africa.
- There may be the argument that this economic position of Angola is above all, the result of the importance of the oil economy and the positive conditions that it has been benefiting along the years. It is certainly true. But it means that, our progression margin is broad and much bigger than the rest of the countries. That is, when the economy is unlocked and the productive structure is diversified, Angola, may strengthen and consolidate its position as an African leader.
- Our country is still, the second greatest economy in the Gulf of Guinea, with the political and Geo-strategic weight added.
- The country is in conditions to start seeing as natural its leading position in Africa and organize itself and take over as regional power with a great margin of progression in the future (non oil economy, valorisation of human resources, Science, Technology and innovation, competitiveness and productivity, foreign direct investment).
- Claim the possibility to influence the processes of economic integration, in defence of the Angolan interests (NEPAD, African Union, and SADC).

### 2.2.- The internal structural and economic factors

The Angolan productive system continues to be affected by many gaps. Some activities have been responding in a very acceptable manner, the challenges that economic growth imposes on different agents. However, there still remains many barriers, such as the deficient infrastructure of transports and production, and the production of electricity and water, the unqualified manpower, the bureaucratic obstacles,

corruption, the difficulties to access credit –although the credit rate to the economy has changed from 1% in 2002, 13,7% of the GDP in 2008 – the deficit of an enterprising spirit, etc. We should not forget that even the replacement of the imports has to be a norm of reference in terms of competitiveness. We should not just replace. Employment creation and the increment of the customs revenues – if the path is the tariff armament – are very debatable aspects in a context of economic efficiency, this means, and the rational allocation of the meagre productive factors.

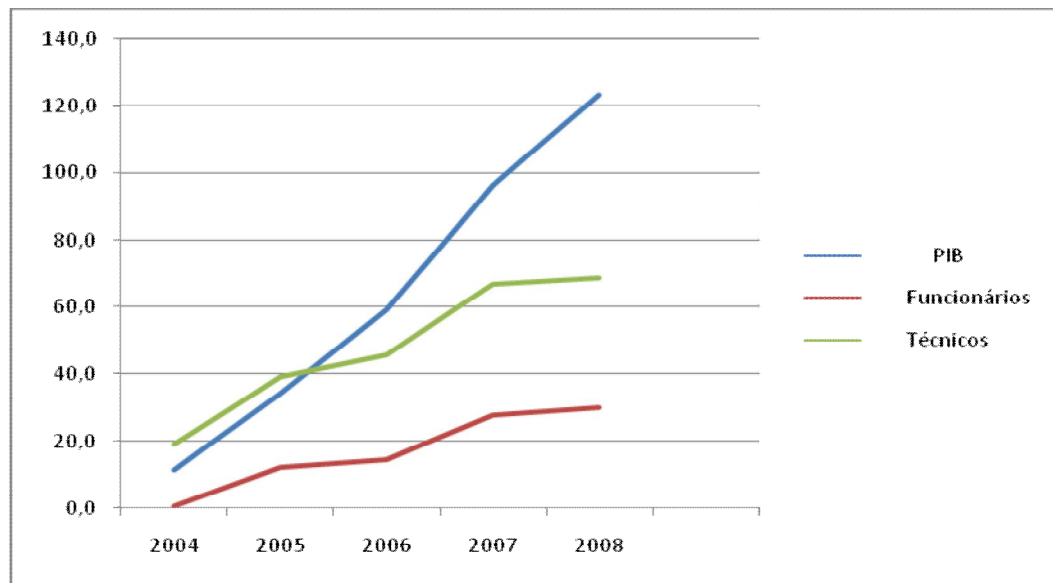
Public administration continues to suffer from many difficulties and weaknesses, and evidently, it affects the control of this ongoing process of a conspicuous growth being registered.

A brief analysis on the effects of public service and its variation along the years, provides interesting subsidies that help us to understand some of the reasons for the current gaps.

The following diagram shows the accumulated variation rates, between 2004 and 2008 – the period of the most intense economic growth – of GDP, of the number of civil servants and the quantitative of technical staff. Here are the conclusions:

- (a) There was an effort to improve the Angolan Public Administration between 2000 and 2003, based in the increase of technical staff and the reduction of non-technical staff. It was the period of great reform of the Public Administration.
- (b) Nevertheless, the quality of service delivery – to the public and the Public Administration itself, in the form of studies, definition of policies and programs, as well as the control of the application of results – is low and the productivity is weak.
- (c) From 2004, the year of the start of intense economic growth, the Public Administration stopped following these rhythms of GDP variation: Accumulated growth of the Public Administration personnel was only 30,1% and the technicians 68,8%, while the GDP accumulated 123,4%. It is not believed that the differential was covered by the earnings of productivity.
- (d) Therefore, we realize that, there is a loss of the State capacity to understand, to fit, orientate and manage the process of structural economic changes. Is it one of the reasons for the “invasion” of foreign technical assistance, namely the Brazilian? What is been done by our Universities?

# REAL GROWTH OF THE ECONOMY VERSUS THE GROWTH OF CIVIL SERVANTS IN THE STATE PUBLIC ADMINISTRATION



**SOURCES:** Ministry of Labour, Public Administration and Social Welfare.

There is a need to acknowledge that some conditions for an advantaged substitution – that respects the comparative costs of our economy – are being created, not only through the macroeconomic fundamentals, but also by means of the physical infrastructure. However, in some phases of the process economic growth, we will lack some essential aspects for the increment of productivity – the foundation of efficiency and competitiveness, and the only non inflationist source of funding for improving remuneration of work – such as Scientific and Technological armour, the new information and communication technologies, highly qualified human resources, etc.

But, we should also stress other factors that have been contributing to the fall of the general productivity rate in the country:

- The congestion of the ports, especially the Luanda one, where the average waiting time is 40 days and other additional costs for over staying, for over 30 Ships awaiting for docking space; this fact overburdens the price of imported goods in over 35%.
- The traffic jam in Luanda city where over 2000 cars get into it weekly and its deficient streets, full of unending road works with doubtful utility. Some inefficiencies are linked to this situation of systematic bottle-neck roads and the quality of the road infrastructure being built by foreign companies: Some urban streets built about two years ago are urgently in need of rehabilitation; others, in reconstruction/rehabilitation are apparently abandoned; still others, are lacking in conception and programming; Finally, the constant delays in

the delivery of works may diminish its economic impact and social utility. Some may argue that the population of the capital has increased considerably in record time, and the same thing happens with the traffic. Then, what about prevision capacity of the national institutions responsible for these areas and the engineers and architects of these companies<sup>41</sup>? CEIC considers that these inefficiencies may affect the coefficient capital/product of the economy – in an average calculated in 2,5 and 3 – in about 10%, and does diminishing the capacity of the national economy to generate more results with the same volume of investments.

- The fullness of the hotels motivated by the demand of foreigners, has been exerting a contagious effect on the prices in low quality hotels and restaurants.
- Due to the real estate crack caused by foreign companies, the imported technical assistance and the demand of the national bourgeoisie, the city of Luanda became the most expensive in the world, and thus dethroning Tokyo and Moscow.
- The immigration to Luanda has not ceased, even after the end of internal military conflict. The capital has currently an estimated 4 to 5 million inhabitants, absolutely unwilling to return home. The pressure over the urban infrastructure – transports, education, health, sanitation and cleaning – is huge, and consequently increasing the costs of private and public services.

According to the World Bank opinion expressed in the *Doing Business* 2009, the general business climate in Angola improved from 2007 to 2008, moving from the 169<sup>th</sup> to 168<sup>th</sup> place in the World ranking. In Africa and in SADC, the most direct competitors of Angola – Mauritius, South Africa, and Botswana – improved considerably their world position, thanks to a strong support of de-bureaucratization, combat on corruption, correction of the market gaps, and the democratization of opportunities. The Mauritius are classified in the 24<sup>th</sup> position (29<sup>th</sup> in 2007), South Africa moved from the 35<sup>th</sup> to the 32nd position and Botswana grew 14 steps (absolutely remarkable), occupying the 38<sup>th</sup> place in 2008.

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<sup>41</sup> The authorities must be attentive to possible situations of repetition of projects, in other words, prevent the building companies to propose new work as complement to unfinished and interrupted projects. When The president of the Republic spoke about the need to diversifie the economy, as a strategy to increase competitiveness and better resist the impact of the international economic crisis, he also called the attention on the need to ensure the efficiency of public investments, that is, obtain greater results with the same amount of expenditure. The idea that Angola is an *el dorado* – which is widespread in Portugal, for example – makes the foreign investors to think that here everything is possible.

There are certain institutions and leaders in Angola that do not consider these indicators. They should however remember that these documents are prepared by the World Bank and the International Finance Corporation, which are internationally known organizations and to which the true private businessmen run for independent and objective information on where and how to invest. Only the useless businessmen (foreign and national) would ignore this information – that is in reality intended to help the Governments to improve the public service delivery which is their constitutional duty-- convinced that with a slap on the back and a substantial family bonus they solve quickly their problems. These are the kind of mentality that hinder the enterprising mentality and restrict the Government actions to establish democratic and transparent procedures.

The items in which our country is still low classified are:

- The creation of new business is ranking 156th place in the world. The number of procedures Contribute to this low classification (8), the waiting time (68) and the operation cost (197% of average income per inhabitant).
- Registration of property (173rd place), with the exaggerated number of days to carry out the operation (334) contributing to this performance.
- Working of the labour market, in which the country was classified in the 174<sup>th</sup> position, due to the difficulty to hire qualified manpower and the impediment to fire workers (viscosity of the labour market).
- Tax paying (130th place), based in a high coefficient of impending super-intendence on the businessmen (in average 53,2% of the profit) and time wasted in paying the duties (31).
- Foreign trade (172nd position), where we stress the number of days spent for export (68) and for imports (62), the required (12) and the costs of containers (2250 dollars in exports and 3325 dollars in imports).

The 2008 *Mo Ibrahim Governance Index*<sup>42</sup>, which started to be drafted three years ago, on the initiative of the African millionaire Mo Ibrahim, puts Angola in the 44th position, amongst the 48 African countries (this index is only valid for the African countries). The Mauritius appears in the first place, as the most transparent country and the best for making business. Botswana and South Africa, appear in the 4<sup>th</sup> and 5<sup>th</sup> places respectively. Nigeria, Ivory Cost, Equatorial Guinea, Chad, and the Sudan appear in the same position as Angola. One of the factors considered in this Governance index is the

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<sup>42</sup> The Africa Report, December 2008/January 2009.

level of corruption, and our country has not registered any significant improvement when compared to 2007.

These are the factors that have been hindering the efficiency of the GDP growth, the high costs and the lack of a fair social distribution. Probably, these structural/economical issues may be some of the reasons behind the lack of success in decreasing the inflation rate to the level of one digit.

The international financial crisis is entering into its third stage, meaning that its most perverse and tragic consequences will reach the poor countries, after having affected the most advanced and the emerging economies of the world. Depending on its situation – amongst the poor countries, there are the poorest and the less poor, and the oil producing countries are in the group of the less poor – the effects will be transmitted through the international trade. According to the IMF, Amongst the African countries that will be most vulnerable to the financial crisis are Angola, Ivory Coast, Ghana, Lesotho, Liberia, Nigeria, DRC, the Central African Republic, Sudan, and Zambia.

The vulnerability of our Country is due to two orders of reasons: The excessive concentration of the productive activity on oil and diamonds, and general lack of competitiveness of the economy.

The following table shows the numbers of four indicators that are usually used to measure the degree of diversification of the economies<sup>43</sup>. Any one of them shows a very low index of diversification of the productive activity in the country, the reason why its degree of exposition to external shocks is very high, and the national economic policies are not able to counter and repel such negative effects.

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<sup>43</sup> The Hirschmann index is usually used for measuring the degree of concentration of exports of a country. It was adopted to measure the degree of concentration of the economic activity in Angola. The economic diversification index has been calculated -- just as the previous, taking into account 182 activities identified in the CTCI – on the mining activities. The other indexes compare, in time, the transformations occurred and were calculated basing in the economic structure and the industrial structure of the country.



#### DIVERSIFICATION INDICATORS OF THE ANGOLAN ECONOMY

	2001	2002	2003	2004	2005	2006	2007	2008
<b>IDIEC</b>	<b>0,528</b>	<b>0,529</b>	<b>0,528</b>	<b>0,523</b>	<b>0,527</b>	<b>0,522</b>	<b>0,520</b>	<b>0,512</b>
<b>ITEI</b>	<b>0,54</b>	<b>0,600</b>	<b>0,363</b>	<b>0,313</b>	<b>0,938</b>	<b>1,615</b>	<b>1,510</b>	<b>1,996</b>
<b>ITEE</b>	<b>0,910</b>	<b>0,897</b>	<b>1,374</b>	<b>1,457</b>	<b>1,392</b>	<b>0,714</b>	<b>0,419</b>	<b>0,870</b>
<b>ICAE</b>	<b>0,489</b>	<b>0,513</b>	<b>0,456</b>	<b>0,481</b>	<b>0,529</b>	<b>0,522</b>	<b>0,523</b>	<b>0,542</b>

**SOURCE:** Calculus of the CEIC Macroeconomics Team.

**NOTES:** ITEI – Index of Transformation of the Industrial Structure. ITEE – Index of Transformation of the Economic Structure. ICAE – Index of Concentration of Economic Activity. IDIEC – Economy Diversification Index.

We notice that in general, the industrial and economic structures of our economy still demonstrate a high degree of concentration and a low tendency of diversification of activities.

For example, the IDIEC – whose values vary between zero and the unit, the limit meaning a minimum diversification of the economic – despite the evolution in the expected sense, it presents values that put our economy in a low intermediary scale of diversification.

The ICAE – with variations between zero and the unit, this limit means a maximum concentration of economic activities – shows that the bulk of mining activities contribute to a high degree of concentration of the economic activity of our economy.

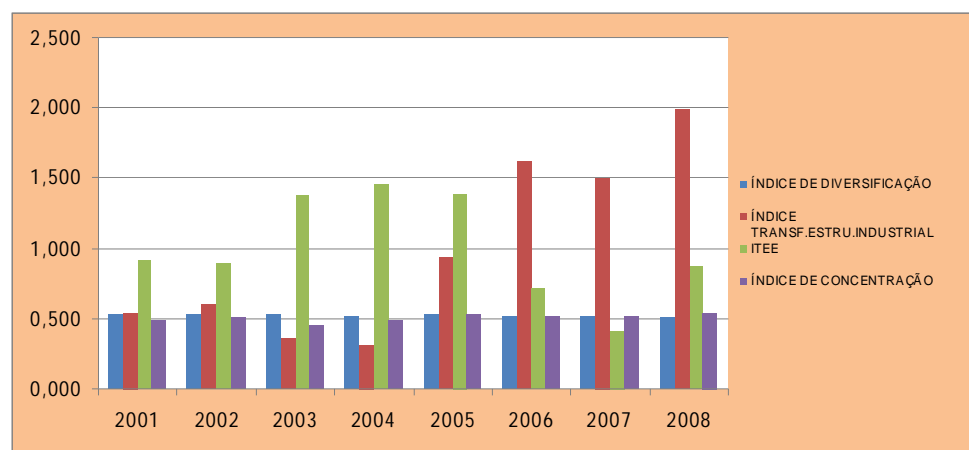
The ITEE presented a maximum value within the period under study, in 2004, and then deteriorated in 2007. The values of the attributable variations to this indicator have not inferior limits, so, the higher it is, the better. The positive evolution until 2004, may be explained by the fragile starting conditions after the achievement of peace.

Finally, the ITEI – a specific indicator of the transforming industry – used to buy what in reality has been observed: After 2002, the manufacturing structure has been subject to a positive movement of internal diversification of its activities, which is good for the diversification of the network of inter-industrial and inter-sectorial relations.

Naturally, these indicators have their limitations in the interpretation of the phenomena that they intend to explain. For example, the ITEI proposes an unambiguous evolution of the industrial structures (sectors that have the tendency to loose weight, such as food, textiles, beverages, etc. , and sectors that uniformly get relative importance, such as the electro-mechanics, Chemical, etc.). However, it may not happen this way, it is not

very likely the acquisition of high values for this indicator, and it does not correspond to a tendency of modernization<sup>44</sup>.

INDEX OF DIVERSIFICATION OF THE ECONOMIC STRUCTURE



SOURCE: CEIC, the Macroeconomics Team.

The core of the situation is the production of transactionable goods. Even if Agriculture is developed, building construction and other services, if the national productive specialization gives privilege to transaction goods, Angola will accumulate, in the future, foreign debt and deficits in the balance of current transactions.

The diversification of the Angolan economy – a long term objective that must be applied immediately – contributes to the creation of an armour against the external financial and economic chocks, considering that:

- It contributes for the increase of stock of the international cash reserves.
- Improves the balance of the current transactions.
- Reduces the volume of foreign debt.
- Helps in the establishment of the fiscal deficit in virtuous levels for the economy, and contribute for the achievement of a positive state savings.

<sup>44</sup> A higher rigour of measurement of this indicator is obtained when a country presents a manufacturing industry with a very huge manufacturing activity.

- It helps to stabilize inflation and improve the purchasing power of salaries and other remunerations of the productive factors.
- It boosts the internal banking system.

The diversification of the national economy is demanding in the following factors: institutionalise transparency in governance and financial resource management, long term vision, availability of natural resources – the so called myth of natural wealth seems to be fading away, because it is much better to have them than to process them, having only to promote and ensure a socially fair and economically sustainable application of the results of its exploration – existence of quality physical infrastructure of water and electricity in abundance (we can not continue to be the country with more generators per inhabitant in the world, and industrial development is not compatible with constant and permanent cuts in the supply of electricity), sufficient qualified manpower (currently the manpower is required to have more and more knowledge, and the prevision is that in 10 years time, the so called indifferent manpower will have to present the minimum qualification the 10<sup>th</sup> grade), the high investment rate, specific investments to the diversification of production, the opening of the economy to foreign competition (specialization based in transactional goods), internal credit lines, innovation capacity (discovery of tropical/traditional products in which Angola presents clear comparative advantages), competitive stock exchange rates, (taking the advantage of the circumstance of the lack of an African and SADC single currency), a measured economy in the supply of public goods and high levels of productivity.

The huge deficit of structural competitiveness of the Angolan economy – we import more and export less – is not only bigger thanks to the processes of modernization of the enclave sectors and the banking system, pulled by foreign investment, normally owners of the technological and organizational future.

The lack of competitiveness is linked to factors such as the national human capital – the foreign technical assistance, even if necessary at the moment, is doubtful because of the modalities it is based in, taking always the role of substitution assistance. It will bar the long term valorisation of national resources, unless concrete programs of technology transfer are devised – the quantity and quality of the infrastructure, the institutional environment (legal system, corruption, bureaucracy) and the enterprising values.

The effect-acceleration of economic growth registered between 2002 and 2008 generated disturbing concerns and asynchronies, expressed in the functional and personal distribution of the national revenue and in the special location of the economic activities. These imbalances provoke retardation and reduce the competitive capacity, and may bear certain threats to development.

The essential warning that we leave here concerning the inequalities in the distribution of revenues is that, this issue is not only a matter of ethics, morals or

legitimacy; the gap between poor and rich must also be analysed from the economic point of view, the sustainability of growth may be seriously damaged, if the accumulation model is not as inclusive and as extensive as possible. To remind that the Gini index for our country reported in 2005 is one of the highest in the world (0,62), so, Angola is one of the countries with most inequalities in the planet (see paragraph1.4).

The territorial asymmetries are also to be considered, because private investment continues to prefer the litoral base, specially in Luanda, despite the significant advantages – fiscal, monetary – provided by the private investment law. The externalities and the conglomeration economies existent in the litoral exert a major effect of attraction than the dislocations incentives offered by the State.

The table bellow shows the current state of the territorial asymmetries in our country.

**REGIONAL ASSYMETRIES IN ANGOLA IN 2006**

VARIABLES	Luanda	L. Norte	L. Sul	Malanje	Bié	Huambo	National
GDP per inhabitant (usd)	3476,3	1324,9	1842,2	243,6	201,1	489,5	2422,7
Poverty rate (%)	49,1	68,2	68,0	77,7	87,6	60,5	68,2
Unemployment rate (%)	20,9	18,9	18,7	19,7	22,4	37,5	27,4
Business volume (weight %)	71,2	0,6	1,6	1,3	0,3	4,2	100,0

SOURCE: CEIC, the Macroeconomics Team, Study on the Regionalization of the Economic Activity in Angola.

### **3.- THE MONETARY SECTOR**

#### **3.1. Introduction**

The monetary policy carried out by the Central Bank continued to maintain the objectives, the disacceleration of inflation and the stability of the national currency in the cambial market, in order to heighten the levels of trust in the national currency -- the kwanza -- by the economic agents.

For the achievement of these objectives, the exchange rate was kept as a monetary anchor and the control over the nominal monetary aggregates, namely the monetary basis, which was made through the “*ex-ante*” sterilization of oil revenues allotted for the current fiscal expenditure, through interventions in the cambial and monetary markets.

The maintenance of the kwanza value in relation to the dollar was achieved. The kwanza exchange rate was kept stable in 2008, registering an insignificant nominal depreciation of 0,19% in relation to the dollar that occurred essentially in the month of December (0,15%). Regarding the Euro, the depreciation of the national currency was more accentuated 5,76%, while in relation to the Rand, it was in 12,63%. In real terms, the national currency maintained a significative appreciation in relation to the dollar in 11,4%.

The results of the inflation were more modest; the balance of the cambial market was insufficient to restrain the evident growing pressure over the consumer prices registered during the year 2008 and intensified in the last quarter of the year, when the annual rate remained persistently above 13%.

In homologous terms, the inflation accelerated from 11,78% in December 2007, to 13,2% in December 2008, representing an increase of 1,4 percent, and a hiatus 3,2 percent, in relation to the Government official target of 10%.

The impact of the imported inflation in the general level of prices were reduced, considering that the variation of food prices, essentially the Agricultural products in the international markets registered falls from the beginning of the second Semester of the year, and the alterations of the exchange rate were not significative to justify the magnitude of the price alterations. However, the appreciation of the Euro in relation to the dollar, may have pressurized the increase of the prices of products from the Euro zone.

The acceleration of inflation was fundamentally caused by constraints in the supply of goods and services, due to logistical imbalances and structural constraints, such as the deficient flowing of products from the Luanda port, deficient system of cargo and passenger transport, amongst other things.

Besides the constraints from the supply side, the pressures to resist the inflation were also motivated by the rise of the aggregate demand. The application of the “ex-ante” mechanism of sterilization of the oil revenues allotted for the implementation of the current fiscal expenditures, was not sufficient to stop the growth of the monetary aggregates motivated by the implementation of an expansionist fiscal policy<sup>45</sup> which was reflected in the expansion of the monetary foundation and the payment means, and is the source of the growth of deposits, loans and the aggregate demand.

The monetary foundation, which is the operational goal of the monetary authority, had an accelerated nominal growth of 62,2%, transforming the efforts for its sterilization thorough the issuing of bonds and the selling of currency. The accentuated growth of the monetary base is explained by the expansion of the external net assets, namely the accumulation of the international net reserves of USD 6.308 millions, increasing its stock to 17.499 millions in December 2008, against USD 11.191 millions in 2007, which in terms of imports represents a coverage of 11,3 months. However, in December 2008, the performance of the international reserves started to give signs of the effects of the international crisis in the reduction of export values thanks to the price/ oil quantity effects in the international market and anticipating the expectations of the agents, in relation to a possible depreciation of the national currency.

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<sup>45</sup> Pressurized by the legislative elections in September /08.

In 2008, the monetary aggregates  $M_1$ ,  $M_2$  and  $M_3$  accelerated their rhythm of growth compared to 2007, having been raised to 74,8%, 66,7% and 104,43% respectively. This dynamism was more at the level of the  $M_3$  as reflexes of the transfers with reacquisition agreement and increase of bonds (bonds of the Central Bank and treasury bills), in the saving bill of the bank clients.

As a consequence of the strong expansion of the means of payment ( $M_2$ )<sup>46</sup>, its ratio on the GDP rose, moving from 18,3% in 2007, to 22,2 in 2008. Nevertheless, this ratio, is still below the average of the African countries with medium income.

The total payment means denominated in national currency expanded more quickly, in 158,9%, compared to the denominated foreign currency 104,9% and its weight was consolidated, registering in December 2008 a proportion of 65% against 35%. This performance is the reflex of stability of the national currency in relation to the dollar, of the positive perspectives of the agents in the national currency maintained until the end of that month and also, the raise of the remuneration of applications in national currency, maintained until close to the end of the year, indicating a process of depolarization of the banking system in face of the favourable evolution of the foreign accounts. Thus, as referred previously, the performance of the RIL and the inflation rate at the end of the year may start to threaten the sustainability of the cambial anchor.

The strong expansion of the deposits in 108,9% in national currency and 47,9% in foreign currency is a sign of the strong expansion of the economic activity in the country, having been induced essentially by the expansive fiscal application.

The gross internal credit rose to kz. 1.693 billions of which, 49% was absorbed by the central government and 51% by the rest of the economy (private and public companies). The growth of credit in the banking system in 69,9% served as a driving force to economic growth, despite the registration of a slow down in comparison with the previous year, in which the expansion was in 76%.

Of the total USD 11.494 millions of credit granted by the banking system to the economy, 92% was absorbed by the private sector and only 8% by the public companies. The example of the deposits, the credit bill is dominated by the foreign currency, with the weight of 62% against 38% in national currency, while the credit transformation rate into deposits remained as in 2007, 67%, revealing that the financial intermediation is still low.

The credit expansion is more associated to the moment of euphoria and economic growth that the country is experiencing, than the performance of the interest rates, which slight slow down, do not reflect the performance of the international markets. The average interest rate of the credits in foreign currency, although it showed a slight slow down, it remained above the international levels, staying at 7,84% for maturity higher than a year.

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<sup>46</sup>  $M_2$  (bills and currency in the hands of the public + deposits in order + fixed term deposits)

For the credits in national currency, the rate was in 10,48%, that is, below the annual inflation.

The bonds market was in expansion with the increase of supply of bonds in auctions, and bonds issued (Bonds of the Central Bank -- BCB and Treasury Bills --TB) with the maturity between 14 to 365 days in the amount of kz. 1.535 billions, and its majority being (85%) TB. Due to the stability of the national currency and the positive remuneration in real terms afforded by the bonds, the demand for these notary instruments increased, but without inducing the reduction of its rates which remained stable, having been fixed in 14,94% a.a. In December 2008, for the maturity of 365 days.

Although the first signs of the international financial and economic crisis were started to be felt at the end of the year, and threatening the stability of the national currency and the control over inflation, we can consider that the performance of the monetary policy was successful in 2008. For this effect, the cambial anchor in the dollar was determinant, having been achieved, amongst other things, the stability of the national currency, the increment of the foreign reserves, and the saving in national currency. The indicators of the end of the year 2008 and the beginning of 2009 demonstrate the beginning of new challenges for the monetary authority, for the maintenance of the equilibrium and stability achieved until then.

### **3.2. Cambial and monetary policy**

In 2008, there were not introductions of significative changes in the implementation of the monetary policy, having as the main objectives, the maintenance of stability of the national currency in cambial market and the control of inflation.

The exchange rate was kept as a nominal anchor of the monetary policy, considering that the stability of the kwanza in relation to the currency of reference, the dollar, have been determinant in the desinflation process, both directly, in the determination of prices in kwanza, and indirectly, in the maintenance of the positive expectations of the economic agents.

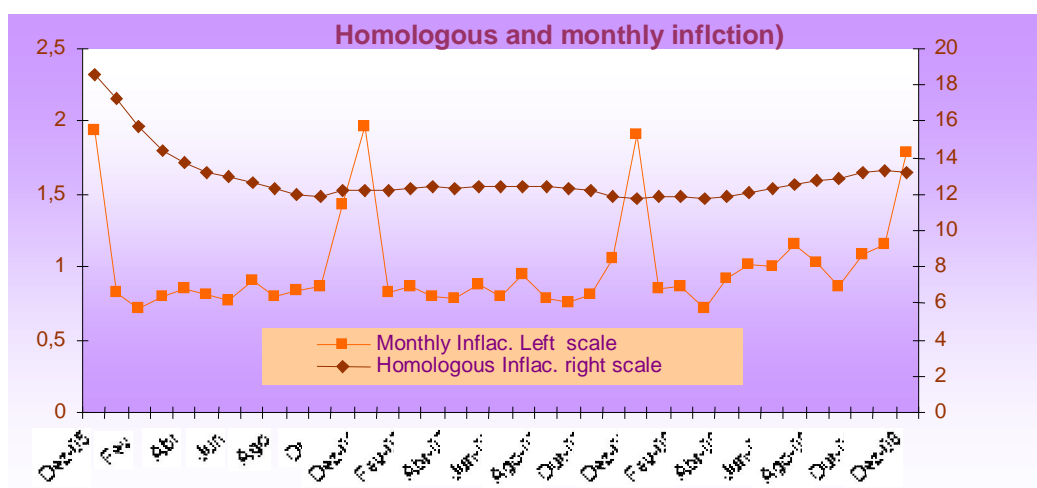
The control of the monetary aggregates and, above all, of the monetary foundation was exerted, although recent studies demonstrated a limited effect of the impact of this variable in the general level of prices. For that, there was a mixture of modern market instruments, -- cambial and monetary market operations (known as mechanism of “ex-ante” sterilisation of cambial flows of the oil revenues allocated for fiscal implementation of the national currency) and the establishment of granting rates and absorption of liquid by the Central Bank (discount operations), with discretionary instruments, such as mandatory reserves, with incidence rate of 15% of total deposits of the banks in national and foreign currency, with the collection in national currency.

Before the signs of resistance of inflation control in the course of the year, above all, in the second semester, the monetary authority increased the supply of bonds in the weekly auctions of public sale to the banks, maintaining the nominal remuneration rate, though reduced in real terms.

The rediscount rate remained stable during 2008, fixed in 19,5%, having the volume of operations ascended to kz. 1.890 billions.

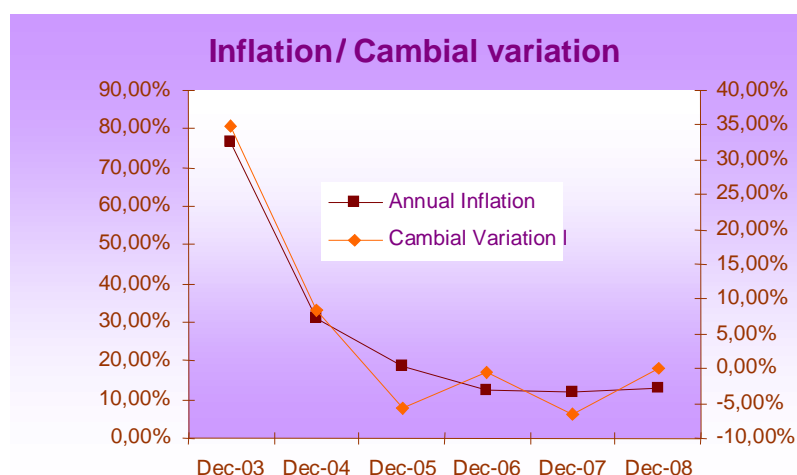
In the cambial market were equally intensified the selling operations of cambium, favoured by the increase of availability of cambium, due to the rise of crude oil production and price in the international market.

The efforts of the authorities in controlling the inflation and stability of the exchange rate, were insufficient to turn around the tendency of its acceleration, maintaining the inflation homologous, measured by the consumer from the Province of Luanda, in the last twelve months, persistently over 13% in the last quarter, and ending the year in 13,2%. There was the registration of an acceleration of about 1,4 percent in relation to 2007, and a hiatus of 3,18 percent, in relation to the Government target of 10%. With these escalate in the inflation, the cycle of its continual disacceleration registered since the year 2000 was broken.



The performance of the inflation revealed that the monetary policies in price control were insufficient to curb the effects on the prices, of the pressure exerted by the increase of the aggregated demand and the constraints persistent in the demand. This was a result of the logistic and discharge limitations of load in the port, as well as the deficient network of distribution and transport of goods, with the class of food and non-alcoholic beverages exerting a greater pressure on the IPC, seconded by transports, clothes and foot-wear.





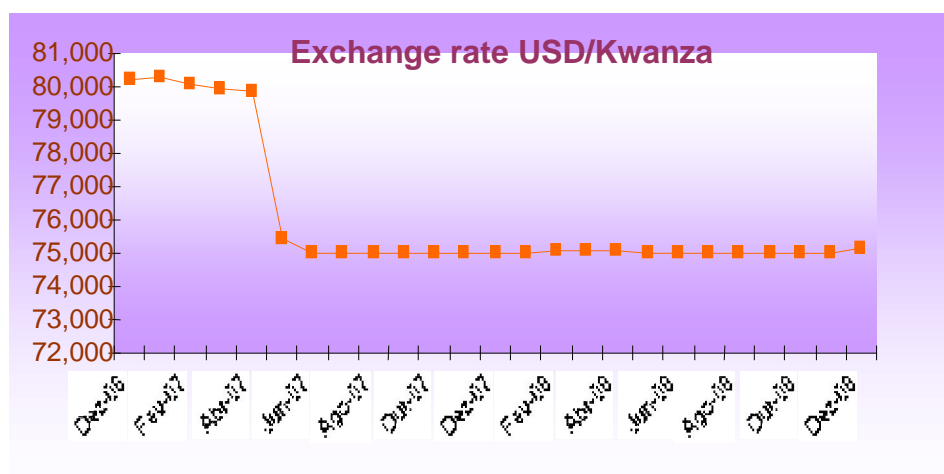
In summary, in 2008 the Central Bank maintained the foundations of the cambial and monetary policy that with relative success has been implementing in the recent past years. This institution was also one of the pillars of the macroeconomic stability and the success of the economic policy carried out by the Government until 2008.

This policy was favoured by the abundance of entrance of foreign resources, facilitating the raising of the level of international bond reserves, and also, increase the high degree of confidence in the national currency, achieved thanks to the strong decrease registered in the level of inflation after 2003. This fact has been contributing to the process of “de-dollarization” of the banking deposits and for the reduction of the interest rates, besides the rise of credibility of the monetary authority and deepening of the intermediation as a booster of economic growth.

### 3.3.- Cambial market and exchange rate

The kwanza exchange rate in relation to the dollar remained an intermediary target of the authorities, with the objective of strengthening the macroeconomic stabilization.

As reflected in the graphic bellow, the nominal exchange rate of the national currency in relation to the American dollar remained stable along the year 2008, having registered a slight nominal depreciation of 0,19%, motivated by the exchange rate movements in December (depreciation of 0.15%). The movements of the exchange rate when compared to its homologous (appreciation on 6,53% in 2007), took us to the conclusion that there was a minor use of the exchange rate as a monetary anchor, due to the objective of accumulation of reserves that was also the will of the authorities.



In real terms, there was a decrease in the cambial appreciation of 12,94% in 2007 to 11,46% in 2008 and, despite the appreciation of the exchange rate in terms of the economic fundamentals not to be an incentive to private investment and the diversification of the exports, the same is not linear for the Angolan economy. This fact was due to the policy that has been contributing for the stability of prices, decreasing the price of imported products, fundamentally those of the Euro zone, including the capital goods, while the infrastructure and basic services to develop national production are not yet established.

Due to the stability of the supply and the facility of purchasing the foreign currency in the banks, the parallel/informal exchange market remained insignificant, and based inn small retail operations, having straightened the differential of the exchange rate<sup>47</sup> between the two markets of 1,3% in 2007, for 0,24% in 2008. In this segment of the market, the exchange rate of the USD/KZ remained also stable, registering a small nominal depreciation of 0,61% and a real appreciation of 12,21%.

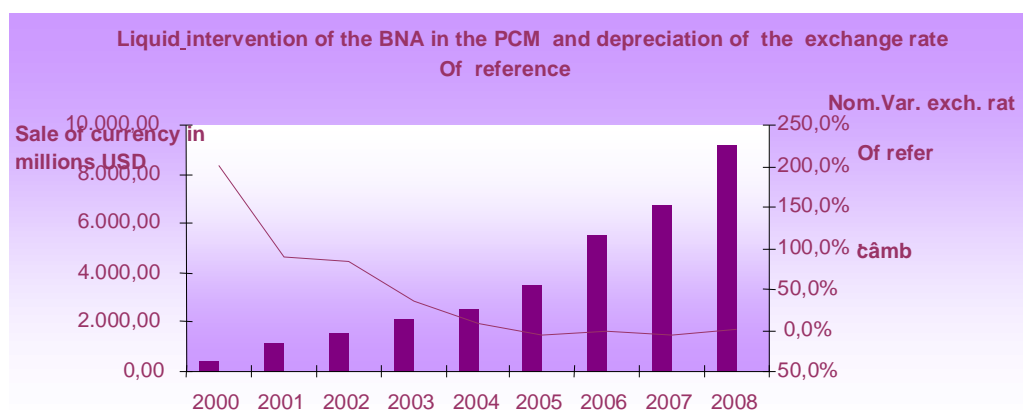
The Central Bank sold, in the auction sessions in the inter-banking cambial market, a total of USD 9.199,5 millions, registering an increase of USD 2.480,9 millions in relation to 2007. The greater demand for cambium in the economy reflects also the registered economic growth.

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<sup>47</sup> Average annual rate of purchase and sale.

Liquid intervention of BNA in the primary cambial market and exchange rate variation					
years	Sale of currency	Nominal variation		Real variation	
	By the BNA (In millions of USD)	Exchange rate Of reference	Informal exchan- -ge rate	Exchange rate Of reference	Informal excha Nge rate
2000	430,7	201,9%	214,6%	-18,7%	-12,6%
2001	1.106,3	88,8%	91,8%	-9,9%	-9,6%
2002	1.511,2	83,8%	89,8%	-7,4%	-8,2%
2003	2.139,8	34,8%	24,4%	-20,7%	-23,1%
2004	2.530,0	8,4%	6,6%	-12,76%	-15,33%
2005	3.493,2	-5,7%	-5,1%	-18,04%	-17,52%
2006	5.532,5	-0,6%	-3,4%	-9,29%	-11,69%
2007	6.718,6	-6,53%	-6,84%	-12,94%	-13,24%
2008	9.199,5	0,19%	0,61%	-11,46%	-12,21%

The analysis of the relation between the volume of the sale of cambium by the Angola National Bank (BNA) in the inter-banking system and the reference exchange rate shows a fall of the positive relation in 2008, indicating a “dirty fluctuation” of the exchange rate instigated in the currency auction sessions.



The monthly analysis of the cambial transactions in the inter-banking system shows that, in the months of December, 2008 (USD 1.915,64 millions), October (USD 971,1 millions) and January (USD 809,3 millions) were established new records of currency sales in the market, in relation to the higher amount of USD 916,9 millions that had been achieved in October of the previous year.

The huge demand for cambium at the end of the year was due to the fiscal implementation and the anticipation of some expectations about the exchange rate, because of the effects on the availability of cambium, in face of the reduction of oil prices in the markets, triggered by the international economic and financial crisis, which caused the reduction of the international liquid reserves at the end of the year 2008.

**BNA Transactions in the Primary Cambial Market (PCM) and the Variation of the Reference Exchange Rate**

	<i>Purchases</i>	<i>Sales</i>	<i>Exchange Rate Variation</i>
	(In millions of USD)		%
<b>2007</b>	<b>0,00</b>	<b>6.718,63</b>	<b>-6,530%</b>
<i>Jan</i>	0,00	809,30	0.02%
<i>Feb</i>	0,00	558,56	0,000%
<i>Mar</i>	120,00	755,75	0.03%
<i>Apr</i>	0,00	724,39	-0,060%
<i>May</i>	0,00	634,47	-0,010%
<i>Jun</i>	40,00	519,30	0,020%
<i>Jul</i>	70,00	422,70	-0,010%
<i>Ago</i>	0,00	657,10	0,010%
<i>Set</i>	0,00	685,42	0,010%
<i>Oct</i>	0,00	971,10	0,000%
<i>Nov</i>	139,00	545,60	-0,010%
<i>Dec</i>	0,00	1.915,84	0,190%
<b>Total</b>			
<b>2008</b>	<b>369,00</b>	<b>9.199,53</b>	

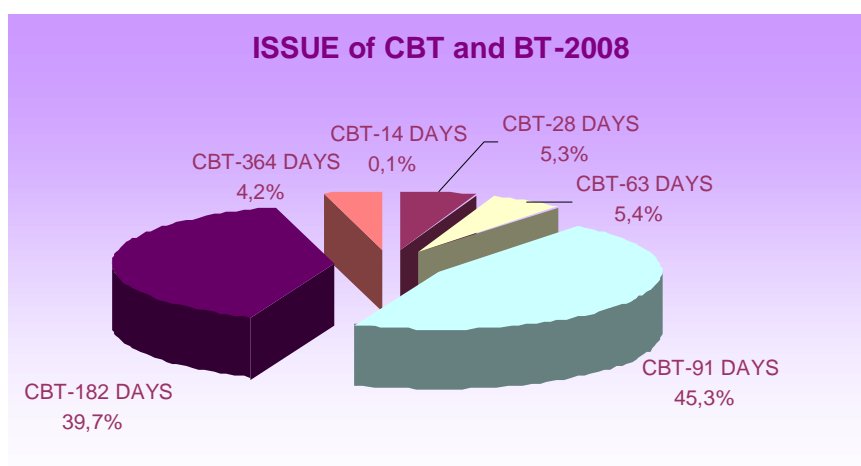
The purchase of cambium from the Central Bank to the banks in the inter-banking market was marginal as usual, in a total of USD 369 millions. This sale came out of the need for liquid in kwanzas, by some banks for the fulfilment of mandatory reserves.

#### **3.4.-Monetary market and interest rates**

The issuing of bonds remained an important instrument of the monetary policy in the liquid control. The bond auctions won a great dynamism with the increase of the bonds availability volume, and with the National Bank of Angola announcement of the availed amounts, its maturity and the maximum, positive reference rates in real terms, acceptable for the issuing of bonds. With this procedure, the Central Bank intended to proceed with the objective started in April 2007, which was the creation of a curve in the interest rate.

Contrary to 2007, in which only the Central Bank bonds (CBT) were issued, in 2008, the National Treasury resorted to the issue of Treasury Bills (TB) essentially in the maturities of 91 and 182 days, for strengthening the finance of the treasury. The issuing of the TB with budgetary objectives were complemented with the issuing of the CBT in the maturities of 14 to 364 days, with the objective of sterilizing the excessive liquidity in the economy.

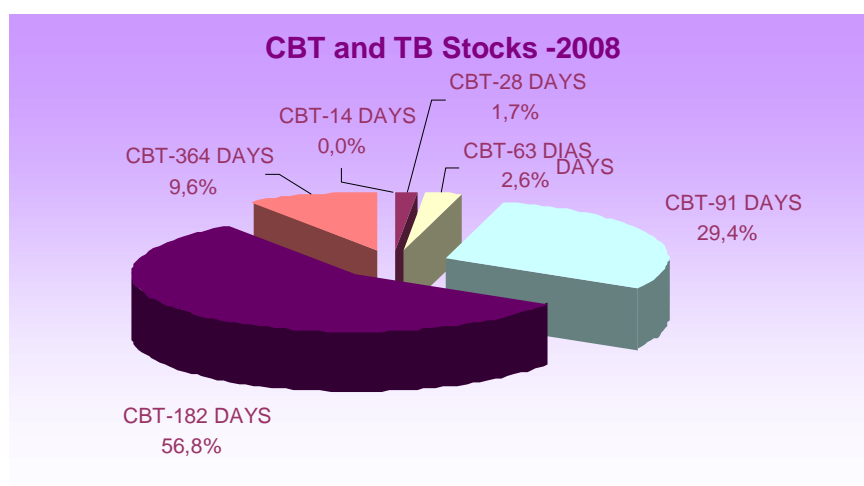
The volume of both short term bond issues (CBT and TB) triplicated in 2008, compared to the previous year, with the issuing of the total bonds with the nominal value of kz 1.535,8 billions, registering a rise of 218,7%, in relation to the homologous period, in which the volume of issues was about kz 481,8 billions. 85% of total issues correspond to the TB and only 15% to the CBT. The two instruments present the same characteristics, with the remuneration of the TB on the responsibility of the National Bank of Angola.



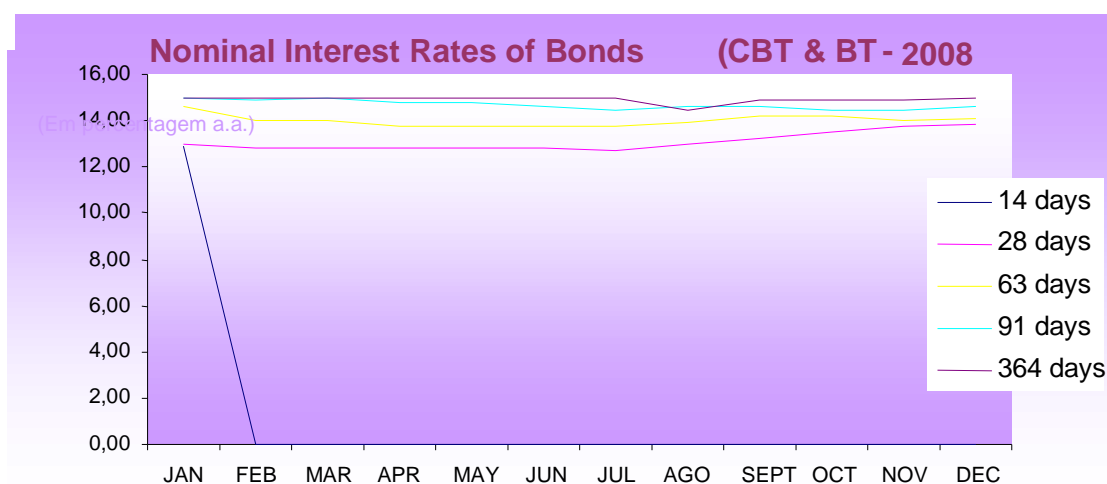
Just as in the previous year, the 91 days bonds were the most transacted in the auctions, representing 45,3% of the total issues, been concentrated on this maturity. The greatest supply of bonds was well accepted by the banks, because of their attractive remuneration rates and positive in real terms. The limited issue of the 365 days bonds was due to the limited supply registered at the CBT level, and no TB were issued in this maturity.

The issues of the 182 days bonds were also meaningful, representing 39,7% of the total, while the 14, 28, 63 days bonds were less transacted.

With these issues, the bonds stock in the market raised to kz 679 billions, in relation to kz 212 billions in 2007, representing an increase of 220,4% in 2008. From the stock in reference, 86% constitute the TB and only 14% the CBT. The 182 and 91 days maturity bonds represent the bigger volume of existence at the end of 2008, with about 56,8% e 29,4% of the market existences.



The remuneration interest rates of the bonds remained stable along the year, with no oscillations in 2008. Excepting the 28 days bonds rates, where there was a slight rise of 0,92 percent, the remaining maturities between 63 to 364 days registered insignificant falls of the remuneration rates, between 0,55 and 0,06 percent.



At the end of December 2008, the 364 days bonds represented the higher nominal remuneration rate, 14,94% a.a, compared to the rates of 14,89% a.a. for 182 days, 14,59% a.a for 91 days, 14,09 % a.a for 63 days and 13,86% a.a. for 28 days.

Bonds - NOMINAL INTEREST RATES (PONDERED AVERAGES)								
PRIMARY MARKET								
CENTRAL BANK BONDS (CBT)XBC						TREASURY BONDS		
	14 days	28 days	63 days	91 days	182 days	364 days	TB-NC	TB-FC
Dec-07	12,92	12,84	14,65	14,99	14,99	15,00		4,74
2008								
JAN	12,92	12,94	14,64	14,99	14,99	14,99	4,00	4,08
FEB	—	12,82	13,99	14,87	14,01	14,99	↓	2,95
MAR	—	12,84	13,99	14,92	14,47	14,99		2,70
APR	—	12,83	13,75	14,81	14,56	14,99		2,71
MAY	—	12,82	13,75	14,82	14,60	14,99		2,80
JUN	—	12,79	13,72	14,60	14,48	14,99		3,13
JUL	—	12,73	13,77	14,45	14,43	14,99	↓	3,13
AGO	—	12,96	13,94	14,60	14,92	14,48		3,10
SEPT	—	13,20	14,15	14,60	14,92	14,84		3,08
OCT	—	13,49	14,17	14,43	14,95	14,90		4,38
NOV	—	13,76	13,99	14,47	14,82	14,90	4,00	2,60
DEC	—	13,86	14,09	14,59	14,89	14,94		2,32

Although the interest rates remained positive in real terms, with the acceleration of the inflation, the real earnings reduced. Despite this fact, the bond application were broadly preferred by the banks and the economic agents. This reality was due to the stability of the national currency that made this applications more attractive than the applications in foreign currency, which remuneration rate remained down.

Apart from the issues of TB, the National Treasury, continued with its Treasury Bond Issuing Program in national currency (TB –NC) for the regularization of delays with suppliers, Treasury Bonds in foreign currency (TB –FC) related to public investment programs.

The TB-NC issued by the National Treasury directly to the State creditors for the regularizations of the delays, maintained the same characteristics, namely the indexation to the cambial variation, of 1 to 7 years maturity and the remuneration in 4% a.a of flat rate.

In 2008, the issuing volume of these TB-NC reached the equivalent of USD 520 millions representing an increase of about USD 72 millions in comparison to the 2007 issues of USD 447 millions.

In the 2007 exercise, the National Treasury continued with the program of domestic finance of public investments, led by the Trade Unions of national banks through the direct issue of Treasury Bonds in foreign currency and national currency, indexed to the cambial variation, and remunerated half-yearly to the variable annual rate indexed in libor. In 2008, the volume of these issues were reduced, and limited to the following programs:

- Infrastructure of the “Nova Vida Fase II” housing project that started in December 2006, and the issue in 2008 of the TB-NC indexed to the cambial variation, the amount equivalent to USD 41,8 millions, with the maturity of 1 to 7 years half-yearly remunerated in a variable rate (libor + 2 bp);

- The Cabinda Public Investment Program, in which were issued TB-NC equivalent to USD 125 millions in 2008, with 8 years maturity and remunerated half-yearly in a variable rate (libor + 2,75 bp);

- The enterprise promoting program in which were issued TB-NC of USD 1.500 millions in August 2008, with 10 years maturity and remunerated half-yearly in a variable rate (libor + 3,4 bp);

These issues were joined by the Treasury Bond issues that took place in the previous year, for the investment program and infrastructures, increasing its stock in the market, some of which are passed to non cambial residents.

The total stock of the Treasury Bonds in NC and FC in 31 December 2008 reached the amount of USD 4,7 billions, registering an increase of USD 1,7 billions in relation to 2007.

The program for the issuing of the Treasury Bonds has been efficient in the generation of internal savings, for financing the public investment programs and for stimulating them to the creation of assets market in the economy. Despite the issues of TB indexed to the cambial variation and in foreign currency results in low costs for the National Treasury, due to the lower remuneration rates, such will pressurize, in the future, the demand of currency. This fact may aggravate with the reduction of the international liquid reserves, as a likely consequence of the effect of the world economic crisis.

The inter-banking monetary market remained active in 2008, having been transacted amongst the banking institutions in kz 2.251 billions, against kz 1.115 billions in 2007, to cover mostly short term liquid, between 1 to 7 days, to fulfil the mandatory reserves. The propriety rate of funds varied between 12,53% a. a and 14,04% a.a..

As the last instance creditor, the National Bank of Angola supplied liquid to the banks (re-discount operations) the amount of kz. 1.890 billions, maintaining the overnight propriety rate of funds, fixed in 19,57%, during 2008.

### **3.5.-The interest rates of the banking system**

The available informatio about the interest rates practiced by the banking system reveal the diverging performances in the assets and liability rates practiced according to the maturities, both in the national currency as in foreign currency, taking us to a conservative analysis of it. This fact will somehow be attributed to methodological issues of its compilation.



# AVERAGE PONDERED INTEREST RATES OF THE BANKING SYSTEM

Dec-04 Dec-05 Dec-06 Dec-07 Dec-08

13,18%

Nomin.Var.

nominal real nominal real nominal real nominal real nominal real 2007/2008

0,07%

Inflation last 12 months

31,02%

18,53%

12,20%

11,78%

## Credits in Kwanzas

1,53% -1,78% 3,31% 0,04% 3,55% -0,53% 3,83% 3,76% 0,28%

In 180days

70,42% 30,07% 46,87% 23,91% 14,85% 2,37% 13,94% 1,93% 11,97% -1,07% -1,96%

From 181 to 1 years

74,77% 33,39% 68,68% 42,31% 8,35% -3,43% 10,62% -1,04% 10,70% -2,19% 0,08%

Over 1 year

73,38% 32,33% 62,59% 37,17% 13,28% 0,96% 8,72% -2,74% 10,48% -2,39% 1,76%

## Application in Kwanzas

Dep.order

9,99% -16,05% 9,95% -7,24% 2,92% -8,27% 3,02% -7,84% 2,95% -9,04% -0,07%

Dep Due in 90days

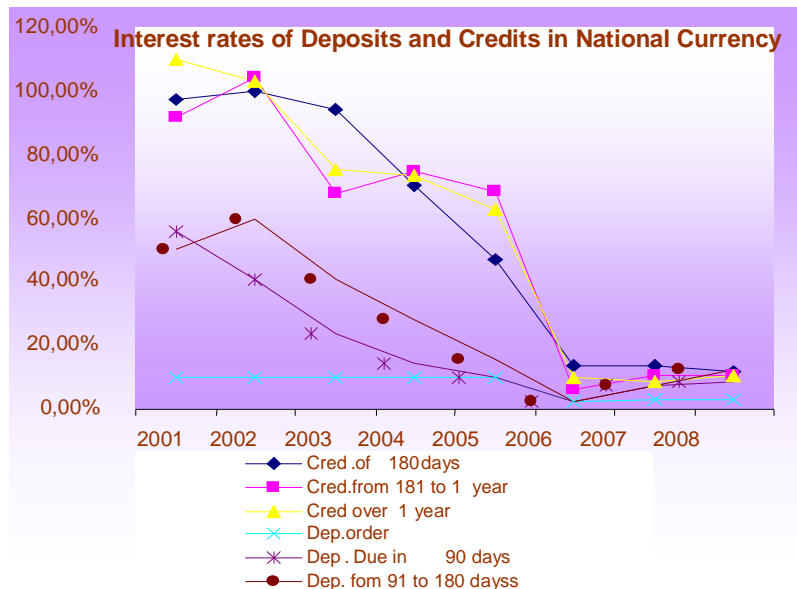
14,42% -12,67% - - 3,22% -8,01% 7,43% -3,89% 8,63% -4,02% 1,20%

Dep. Due from 91 to 180 days

28,48% -1,94% 15,64% -2,44% 2,56% -8,60% 7,79% -3,57% 12,58% -0,53% 4,78%

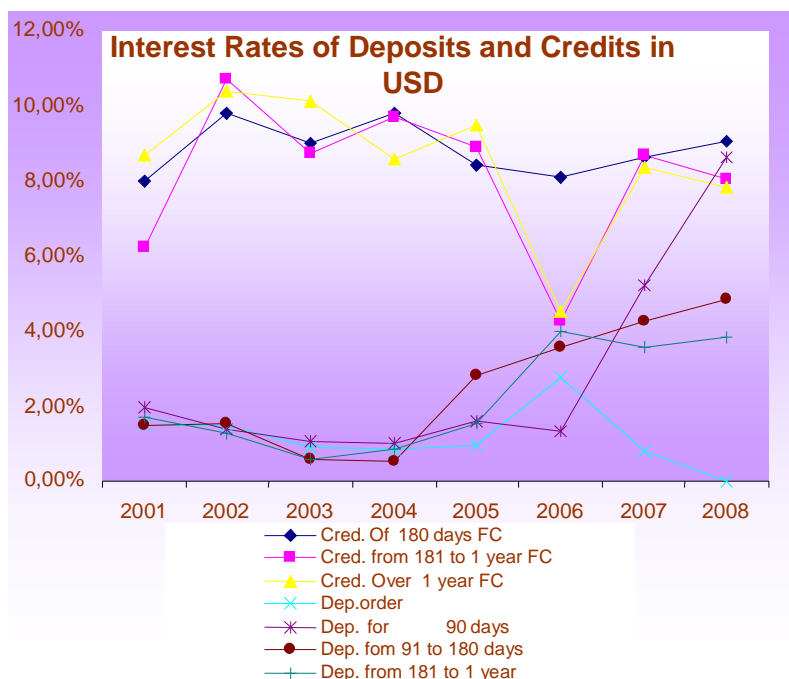
## Foreign currency (FC)

The nominal interest rates of the short term credits (until 180 days) registered a reduction of 1,95 percent, moving from 13,94% a.a. in December 2007, to 11,97% a.a. in December 2008. For the remaining credit maturities, from 181 days to an year and that of over an year, happened the reverse, registering an increase of 0,08 and 1,76 percent, respectively.



For the credits in foreign currency, the performance of the nominal interest rates was inverted, having increased in 0,43 percent for the operations until 180 days, and reduced to 0,61 and 0,52 percent for the other maturities above referred. That is, only the 181 days to 1 year maturities and those of over 1 year followed the international tendency of interest rate reduction.

The performance of the passive nominal interest rates for the deposits in national currency, registered an evolution equal to what was registered in the credits in the same currency. However, for the deposits in order reduced in 0,07 percent and elevated to the applications in the 90 days and 91 days 180 days maturities, in about 1,2 and 4,78 percent, respectively, regarding the policies applied by some banking institutions, with the introduction of bank products with more attractive fees in order to capture savings in national currency.



The interest rates of deposits in foreign currency (American Dollars) manifested an identical move to the saving remuneration in national currency. This means that it grew, although timidly. The most significant variation was the 90 days maturity, with an increase of 3,38 percent. In the remaining 91 days to 180 days maturities and that of 181 days to 1 year, the rise was less, 0,56 and 0,28 percent, respectively.

In real terms, the assets and liabilities interest rates for credits and deposits in national currency were negative, a situation that prevails since 2006, as result of the striking reduction of the interest rates. For the credits and deposits in foreign currency (in dollars) the real interest rates was valued , given the fact that there was a reduction of the American inflation.

### 3.6.- The monetary aggregates

The growth indexes of the monetary aggregates continued high, having an accentuated expansionist performance.

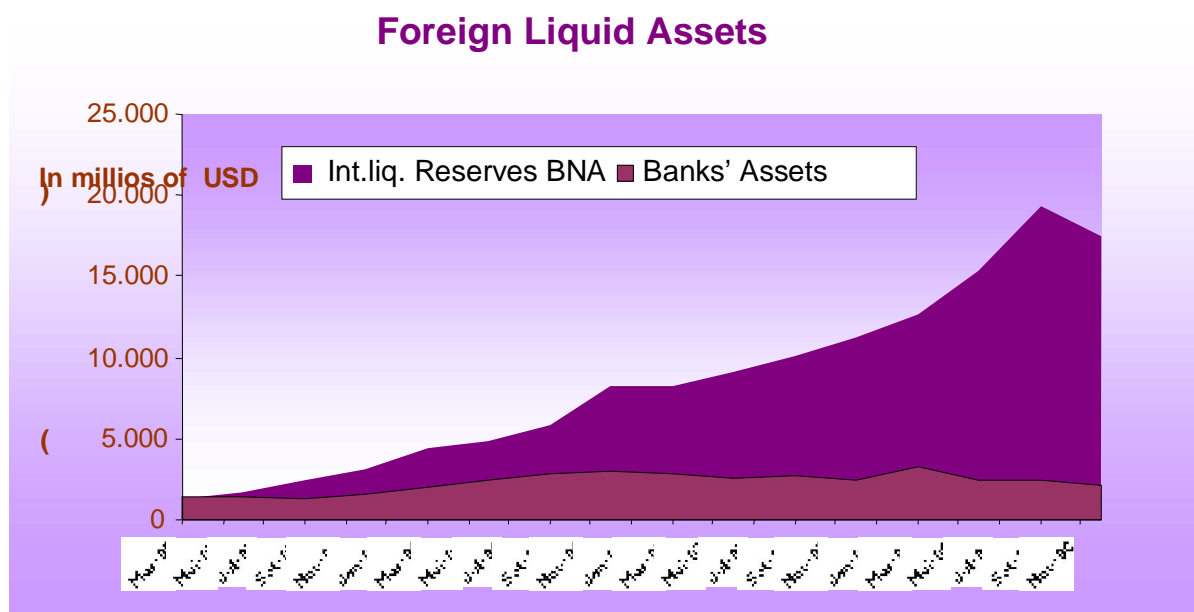
#### - At the level of assets

The foreign liquid assets of the financial system present a nominal variation of 45,76% by increasing to kz 1.478 billions, equivalent of USD 19.670 millions. It expansion is explained by a strong expansion of the International Liquid Reserves in 56,67%, having rose to the equivalent USD 17.499 millions, and registering an accumulation of reserves of about USD 6.308 millions.

This increase of reserves is meaningful, when compared with the previous years, which accumulation of reserves was of USD 3.019 millions. As mentioned above, the rise of the international reserves is explained by the increase of oil production in 12,3% and,

also by the rise of oil prices that reached the average historical sum of 93,7, exceeding the 70,04 of the previous year. In the meantime, from the second semester of 2008, the prices of this product started to fall.

despite the great acceleration of the International liquid reserves in 2008, there was a significative decrease of USD 2.560,64 millions at the end of the year, and this fall is linked to the reduction of the oil prices, with the increase of the demand for cambium, in face of the accentuated fiscal implementation and the anticipation of expectations because of the world financial and economic crisis.



The foreign liquid assets of the banks followed last years tendency, having decreased in 6,79%, and registering a reduction of USD159 millions by reaching the amount of USD 2.188 millions.

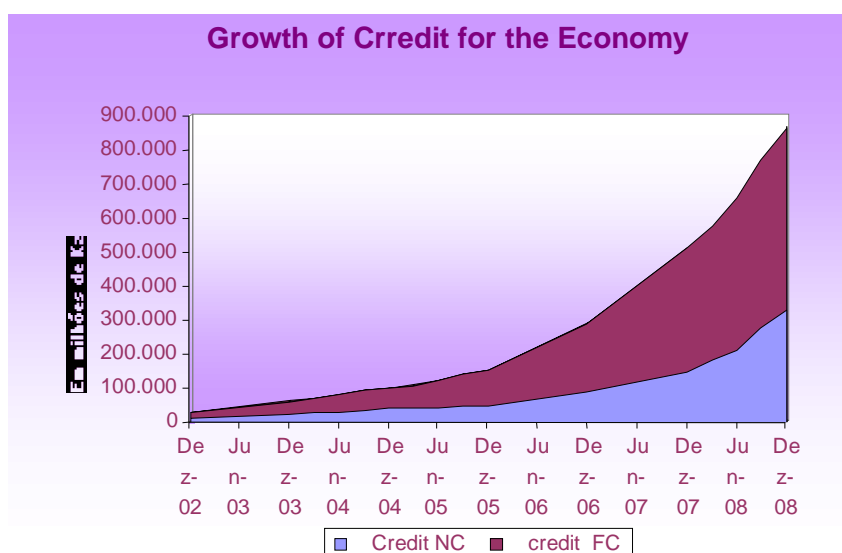
The gross internal credit rose to kz. 1.693 billions, of which 49% was absolved by the central Government and 51% by the rest of the economy (private and public companies). Comparing with the previous year there has been an expansion of credit to 133,75%, equivalent in absolute terms, to Kz.969 billions (USD 13 billions).

Monetary Syntesis													
(In millions of Kz)													
	Dec-00	Dec-01	Dec-02	Dec-03	Dez-04	Dez-05	Dez-06	Dez-07	Mar-08	Jun-08	Set-08	Dez-08	Var. anual
<b>Foreign Liquid Assets</b>	30.516	47.768	93.520	142.257	224.038	386.988	590.000	14.364	93.163	29.805	24.226	78.586	5,76%
<b>In millions of USD</b>	<b>1.815</b>	<b>1.495</b>	<b>1.594</b>	<b>1.799</b>	<b>2.616</b>	<b>4.791</b>	<b>11.088</b>	<b>13.521</b>	<b>15.896</b>	<b>17.726</b>	<b>21.649</b>	<b>19.670</b>	<b>45,48%</b>
International Liq. reserves	17.474	16.960	18.990	49.295	117.52	257.63	55.92	339.57	46.23	151.87	144.26	115.40	66,67%
<b>In millions of USD</b>	<b>1.039</b>	<b>531</b>	<b>324</b>	<b>623</b>	<b>1.372</b>	<b>3.189</b>	<b>8.172</b>	<b>11.191</b>	<b>12.606</b>	<b>15.354</b>	<b>19.250</b>	<b>17.499</b>	<b>56,37%</b>
<b>Variation (in U\$D)</b>	<b>631</b>	<b>-508</b>	<b>-207</b>	<b>300</b>	<b>745</b>	<b>711</b>	<b>2.355</b>	<b>3.019</b>	<b>1.415</b>	<b>2.748</b>	<b>3.896</b>	<b>-1.751</b>	<b>157,99%</b>
Other foreign liq.assets B.C.	-899	-1.505	-3.318	-1.442	-1.425	-1.438	-1.439	-1.350	-1.339	-1.332	-1.332	-1.320	-2,22%
Ext.Liq. Assets of banks	13.941	32.312	77.847	94.405	107.934	130.812	35.516	76.132	48.270	79.262	81.298	164.500	6,61%
<b>In millions of USD</b>	<b>829</b>	<b>1.011</b>	<b>1.327</b>	<b>1.194</b>	<b>1.260</b>	<b>1.619</b>	<b>2.934</b>	<b>2.348</b>	<b>3.307</b>	<b>2.389</b>	<b>2.416</b>	<b>2.188</b>	<b>-6,79%</b>
<b>Variation (In US\$)</b>	<b>274</b>	<b>182</b>	<b>316</b>	<b>-133</b>	<b>-64</b>	<b>273</b>	<b>132</b>	<b>-586</b>	<b>960</b>	<b>-918</b>	<b>27</b>	<b>-228</b>	<b>-61,11%</b>
<b>Internal Liq. Assets</b>	<b>-14.676</b>	<b>-6.155</b>	<b>14.113</b>	<b>38.026</b>	<b>45.227</b>	<b>44.341</b>	<b>200.695</b>	<b>10.548</b>	<b>41.307</b>	<b>70.704</b>	<b>176.326</b>	<b>20.657</b>	<b>184,10%</b>
Internal Liq. credit	-13.526	-1.380	26.730	64.357	73.726	60.817	168.923	32.737	89.673	57.897	223.445	595.498	619,74%
Credit to the Gen. Gover.	15.715	-9.453	2.056	6.379	-22.969	88.598	458.048	25.813	482.785	598.515	43.152	268.492	36,95%
Credit to Central Gov. (liquid)	5.725	-9.476	2.052	5.431	-24.331	88.834	458.558	25.967	483.316	600.705	43.872	269.833	36,65%
Credit to the Economy	2.189	8.073	24.674	57.978	96.696	289.124	89.124	508.55	672.45	556.417	66.583	63.986	69,89%
<b>In millions of USD</b>	<b>130</b>	<b>253</b>	<b>421</b>	<b>733</b>	<b>1.129</b>	<b>3.579</b>	<b>3.602</b>	<b>6.779</b>	<b>7.626</b>	<b>8.750</b>	<b>10.218</b>	<b>11.494</b>	<b>69,56%</b>
Other Assets and liabilities	1.150	-4.775	-26.331	-24.588	-28.500	-31.771	-31.771	-72.189	-48.366	-12.808	-47.111	-25.160	-134,85%
<b>Means of Payment M3</b>	<b>15.840</b>	<b>41.613</b>	<b>107.633</b>	<b>180.282</b>	<b>269.257</b>	<b>431.326</b>	<b>689.305</b>	<b>5024.912</b>	<b>34.473</b>	<b>400.518</b>	<b>500.533</b>	<b>999.240</b>	<b>4,82%</b>

In regard to the liquid, that is, after the deduction of the central government deposits in the bank system, the internal liquid credit raised to 619,74%, reaching the sum of kz. 595 billions. This growth was triggered by the credit expansion on the economy, in 69,83%. In the contrary, the liquid credit to the Government retracted in 36,95%, because of the increase of the Government deposits in kz. 456 billions, due to the increase in fiscal collection.

The expansion of credit to the economy in Kz 335 billions equivalent to USD 4,7 billions reflects the current moment of growth and economic euphoria in the country, and this is responsible for the rise of private investment, particularly trade and luxurious real estate projects. Of the total credit granted to the economy, we point out the credit to the private sector, which represents 92% of the total stock in December 2008 and the growth rate was about 65,05%, while the credit to public companies which represents 8% of the total credit to the economy grew about 165,63%.

Just as the deposits, the expansion of credit was more accentuated in National currency (124,31%) than in foreign currency (48,07%). Nevertheless, the weight of the bill of credit in foreign currency is superior (62%) to the national currency (38%). This dollarization of the credit is due to the fact that the duties are lower for credits in foreign currency, and this fact may pressurize the cambial system.



The distribution of credit by sectors of activity reflects the growth of credit to private individuals (credit for housing, automobile, and consumption), which weight in total credit increased to 43%, compared to 38% in December 2007, registering a nominal growth of 71%. The wholeselling and retail trade continues to be in the 2<sup>nd</sup> position of the credit ranking, with a weight of 19% and an annual nominal growth of 43% compared to the previous year. The 3<sup>rd</sup> and 4<sup>th</sup> positions of credit destination are occupied by real estate activity, renting and service delivery to companies, with the weight of 8%, and by building construction with 7,6%. Nevertheless, the nominal annual growth of these sectors was more moderate, of 5,2% and 43% respectively. The manufacturing industry follows with a weight of 5% and an annual growth of 51%.

Regarding the most dynamic sectors, for the destination of credit, apart from the public administration with a growth of 121, the stress goes to the hotel and restaurants sector, the manufacturing industry and education and health with growth above 50%.

- At the level of liabilities:

The monetary aggregates  $M_1$ <sup>48</sup> and  $M^2$ <sup>49</sup> registered strong nominal growth of 74,8%, and 66,7% respectively, and these growths are superior to those registered in 2007, 48,6% and 37,9%. The  $M_3$  growth was more dynamic, it reached 104,8%, showing the greatest vigour of the titles (TB and CBT) and repurchase agreements at the level of monetary aggregates. Compared to the previous year, this growth was superior in 56 percent.

<sup>48</sup> Currency and bills in public hands and deposits by order

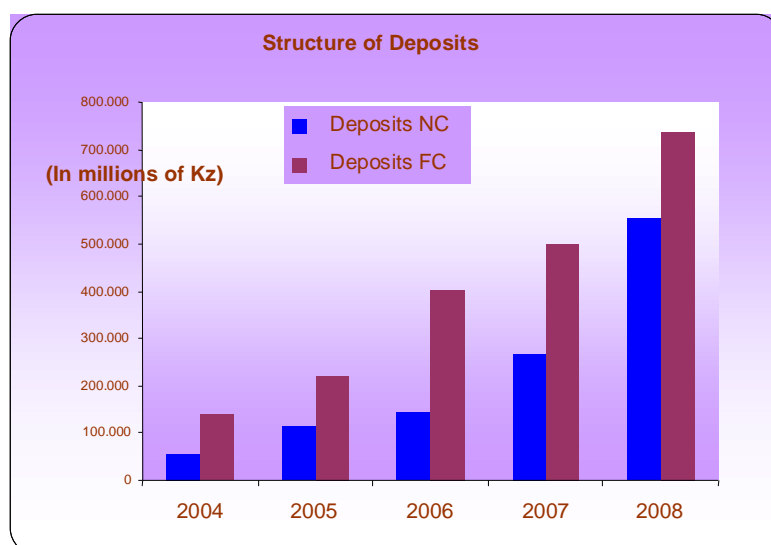
<sup>49</sup>  $M_1$  More fixed date deposits

In parallel with the growth of bonds, the growth of deposits was also outstanding, especially the deposits in national currency that doubled in 2008. The total deposits increased 69%, with the deposits in national currency having augmented in 109% and the deposits in foreign currency 48%.

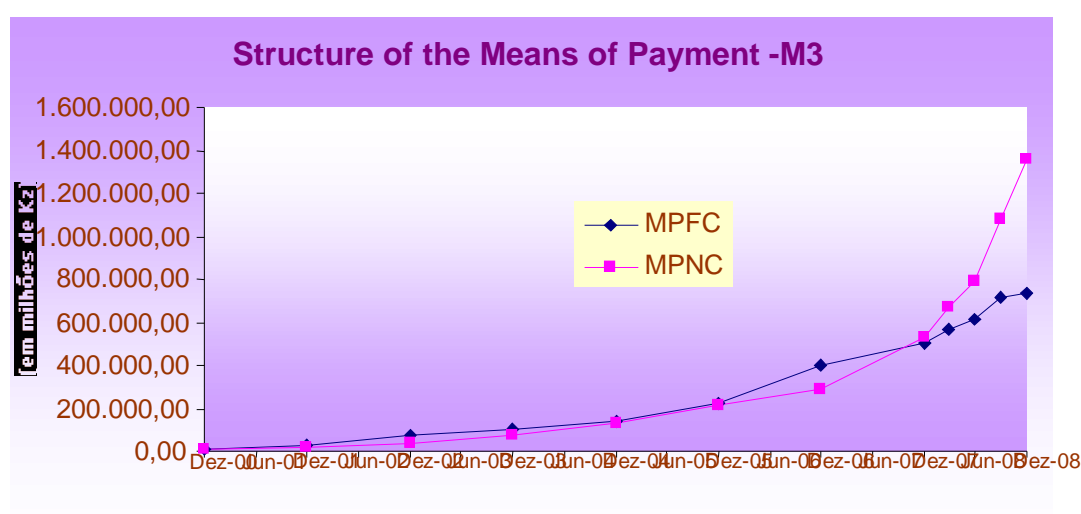
The currency in the hands of the public grew in nominal terms more intensely than in 2007, having registered a nominal increment of 48,5%; On the contrary, the preference in liquid reduced from 8,43% in 2007 to 6,09%, reflecting a greater weight of banking the financial assets in the economy, as a result of the expansion of the banking network, wage banking and the expansion of the credit cards system.

<b>Monetary Aggregates</b>													
(In millions of Kz)													
	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Mar-08	Jun-08	Sept-08	Dec-08	Variac. anual
<b>Means of Payment M3</b>	<b>15.840</b>	<b>41.613</b>	<b>107.633</b>	<b>180.283</b>	<b>269.257</b>	<b>431.321</b>	<b>689.305</b>	<b>1.024.912</b>	<b>1.234.473</b>	<b>1.400.510</b>	<b>1.800.555</b>	<b>2.099.240</b>	<b>104,8%</b>
Variation	303,7%	162,7%	158,7%	67,5%	49,4%	60,2%	59,8%	48,7%	20,4%	13,4%	28,6%	16,6%	
<b>Means of payment M2</b>	<b>15.840</b>	<b>41.292</b>	<b>106.983</b>	<b>177.922</b>	<b>243.705</b>	<b>391.245</b>	<b>616.674</b>	<b>850.367</b>	<b>971.541</b>	<b>1.088.465</b>	<b>1.275.253</b>	<b>1.417.449</b>	<b>66,7%</b>
Variation	303,7%	160,7%	159,1%	66,3%	37,0%	60,5%	57,6%	37,9%	14,2%	12,0%	17,2%	11,2%	
<b>Currency M1</b>	<b>13.308</b>	<b>30.120</b>	<b>69.440</b>	<b>126.983</b>	<b>189.326</b>	<b>313.668</b>	<b>475.281</b>	<b>706.304</b>	<b>817.077</b>	<b>898.853</b>	<b>1.099.925</b>	<b>1.234.733</b>	<b>74,8%</b>
Variation	336,0%	126,3%	130,5%	82,9%	49,1%	65,7%	51,5%	48,6%	15,7%	10,0%	22,4%	12,3%	
Currency in public hands	2.969	8.215	20.879	35.408	45.933	59.693	71.341	86.396	71.083	78.124	89.194	126.080	45,9%
Currency in circulation	3.457	9.716	23.497	40.592	56.346	78.542	93.503	113.508	98.073	109.248	120.052	168.373	48,3%
-Bills in commercial banks	488	-1.500	-2.619	-5.184	-10.413	-18.850	-22.162	-27.112	-26.990	-31.124	-30.858	-42.292	56,0%
Deposits by order - NC	2.130	7.383	11.124	33.907	52.046	94.678	126.234	224.642	286.876	361.009	426.237	510.544	127,3%
Depósitos à ordem - FC	8.209	14.521	37.438	57.668	91.348	159.297	277.707	395.266	459.119	459.719	584.494	598.108	51,3%
Quase-currency	2.532	11.172	37.543	50.938	54.378	77.577	141.393	144.063	154.463	189.612	175.328	182.716	26,8%
Variation	190,8%	341,2%	236,0%	35,7%	6,8%	42,7%	82,3%	1,9%	7,2%	22,8%	-7,5%	4,2%	
Fixed date deposit - NC	45	863	1.900	3.867	5.027	17.919	18.288	40.037	45.142	37.699	41.847	42.303	5,7%
Other duties - FC	1.180	2.987	7.509	7.769	13.508	12.170	6.944	6.676	7.458	7.867	9.259	12.403	85,8%
Fixed date deposit - FC	1.307	7.322	28.134	39.302	35.843	47.488	116.160	97.350	101.864	144.046	124.222	128.010	31,5%
Other fin. instruments	0	321	649	2.362	25.552	40.076	72.631	174.545	262.933	312.045	525.301	681.792	290,6%
<b>Monetary Reserve</b>	<b>6.446</b>	<b>18.531</b>	<b>38.789</b>	<b>70.871</b>	<b>104.696</b>	<b>182.553</b>	<b>265.958</b>	<b>461.272</b>	<b>372.723</b>	<b>344.769</b>	<b>407.980</b>	<b>495.545</b>	<b>7,4%</b>
Variation	226,1%	187,5%	109,3%	82,7%	47,7%	74,4%	45,7%	73,4%	-19,2%	-7,5%	18,3%	21,5%	
<b>Monetary Base</b>	<b>6.163</b>	<b>15.309</b>	<b>33.349</b>	<b>58.631</b>	<b>91.406</b>	<b>152.098</b>	<b>153.593</b>	<b>246.574</b>	<b>246.399</b>	<b>277.005</b>	<b>319.974</b>	<b>400.014</b>	<b>62,2%</b>
Variation	216,4%	148,4%	117,8%	75,8%	55,9%	66,4%	1,0%	60,5%	-0,1%	12,4%	15,5%	25,0%	
NC in Circulation	3.457	9.716	23.497	40.592	56.346	78.542	93.751	113.508	98.073	109.248	120.052	168.373	48,3%
Deposits of other Fin. Institut.	2.707	5.593	9.852	18.035	35.059	73.556	60.090	133.066	148.326	167.757	199.922	231.641	74,1%
Other deposits	93	0	163	277	2.075	1.686	1.185	2.152	2.168	2.082	8.826	1.756	-18,4%
<b>Bonds of the central bank</b>	<b>190</b>	<b>3.292</b>	<b>5.278</b>	<b>11.778</b>	<b>11.216</b>	<b>28.768</b>	<b>109.766</b>	<b>212.546</b>	<b>124.155</b>	<b>65.682</b>	<b>79.180</b>	<b>93.776</b>	<b>-55,9%</b>

Notwithstanding the strong growth of deposits in national currency, the deposits in foreign currency maintained the greater weight in overall deposits, although this ascendency has been reducing lately.



If we consider the composition of  $M_3$  as a whole, the weight of the means of payment in national currency of 65% overweighs the component in foreign currency of 35%. This supremacy of the national currency intensified in 2008, in about 5 percent, due to the increase of the applications in bonds by the economic agents (Companies and individuals), signalling the beginning of the “de-dollarization”, in face of the economical and financial stability.



Although the Central Bank does every effort to sterilize the foreign monetary flows designed to implement the current fiscal expenditures, through the issuing of titles and the selling of currency, the monetary base expanded 62,2% and the monetary multiplier rose from 2,2 in 2007 to 4,2 in December 2008, having in effect contributed for the expansion of  $M_3$ .

Amongst the components of the monetary base, the expansion of the expansion of bank deposits was more accentuated (74%) in relation to the bills and currency in circulation (48%). This growth of the deposits reflects the increase of the bill of deposits



in the banks, considering that no changes were introduced in the normative of the mandatory reserves, which remained in 20% of the overall deposits. The monetary reserve registered a softer growth of 7,4% due to the reduction of CBT stock by the BNA, and its replacement by the TB.

### **3.7.-The financial system**

The results of the banking system in 2008 show that it was not directly affected by the world financial crisis, and its growth kept rising with high results, due to the macroeconomic growth and stability of the Angolan economy in 2008.

The liquid result of the banking system in 2008 was of kz 62,2 billions, corresponding to a real growth of 54,79%, compared with kz 35,3 billions registered in 2007. This result of the banks derives from its pledge to boost the operations of financial intermediation and application of monetary instruments (bonds), contrarily to the previous exercises which results derived, mostly from the profits in financial operations.

Another indicator that reflects the expansion of the banking system and the increase of competition was the start of two new banking institutions, the Quantum Capital, specialized in investments operations and the *Finibanco*, with the characteristics of a bank. These institutions started their activities in 2008, rising to 19, the number of banks in activity, disseminated all over the country, in a total of 511 branches.

Just as the other economic activities, the banking system is mostly made of banks with universal characteristics and above all concentrated in Luanda. It has 265 branches, though there are noticeable efforts to spread into the municipalities and rural areas.

Meanwhile, the situation of the manual exchange market is deteriorating; recently, three exchange offices were closed down, reducing the number of these institutions to 13, situated in the provinces of Luanda, Benguela, Huila, Cunene and Namibe.

The financial and economic stability and growth contributed to the expansion of the banking system, and its assets reached the sum of kz 2.579 billions and registered a nominal growth of 90,3% , against the kz 1.355 billions registered in 2007. Not considering the inflation effect, the real growth of the banking investments registered a real increase of 68%.

The assets have been financed by mediation, and in a small scale with own resources. In December 2008, this group of banks processed own funds calculated in kz 183,2 billions and kz 2.322,1 billions in demands.

Contributed to the asset expansion, above all, the increase of the bonds applications in kz 490,4 billions (252,1%) that became the applications of major weight in the structure of the banking assets, representing 33,43% of assets, compared to 27% in 2007 and the credit operations of kz 308,1 billions, which weight in the banking assets represented 62,3% at the end of 2008, against 38% in 2007.

In December 2008, the bonds of public debt issued by the national treasury and by the National Bank of Angola, in possession of the banking system, amounted to kz 862,2 billions, a nominal increase of 252%, in relation to kz 371,8 billions registered in December 2007. These bonds were mostly short term treasury bills, reflecting the conjugation of efforts by the issuing entity – preference for floating debt and of the banking system – appetite for short term instruments.

This expansion of the applications in national bonds is an indicator of the capacity of the national financing system in financing the State without crowding out the rest of the economy, since the credit indicators are encouraging and demonstrate that the finance institutions have been undertaking the role of driving force of the business activity. Thus, they contribute to the stabilization process and sustainable development, favoured by the increase of investment opportunities and stability. The credit to the economy expanded in 69,89% in 2008, about Kz 355 billions in absolute terms, with the stress on the credit for the private sector that raised to 65%.

The bill of credit for the financial system of the economy amounted to Kz 863,3 billions at the end of 2008, of which, about 62,2% corresponded to credit in foreign currency. The private sector was the one that most benefited from the credit with a weight of 92% of the total bill, being 67% allocated to companies and 24% to private individuals. Despite the fact that the credit to the private business sector continues to dominate the applications of credit operations in the banks, its participation in the total credit have been decreasing in favour of the credit for private individuals and to the public business sector.

The pure financial intermediation, translated into the transformation rate of deposits into credit, remained in December 2008, at the level of December 2007, in 67%, and lately there has been a greater orientation of the banking activity for the financial intermediation, in face of the stability of the national currency. This indicator is much better if it is considered that the normative demand the banks to have 50% of the deposits in foreign currency abroad and compulsory deposits of 15%<sup>50</sup> in the BNA on total deposits, which inhibits a major expansion of this indicator.

The availability of the banks in 2008, registered an expansion of Kz 214,5 billions (96,45%) in relation to 2007, representing 16,94% of total assets. The availabilities of the Central Bank represented 10,28% of the assets.

The banking demand of liabilities amounted Kz 2.322 billions in 2008, registering a nominal increase of 99,1% I face of the Kz 1.166 billions registered in the previous year, and expressed in a real growth of 75,9%.

As a traditional source of finance for the banking activity, the deposits, registered an increment of 69% (Kz 527 billions), representing 55% of the total liabilities and a decrease

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<sup>50</sup> Rate of Compulsory Reserves in December 2008.

of 22 percent in relation to its weight of 77% in 2007. The bill of deposits is dominated by the deposits by order and in foreign currency obtained from the private business sector (42,34%) and private individuals (35,48%).

Other resources, specially the resources with agreements of re-purchase of public debt bonds, are the second major source of resource generation for the banks, having grown about Kz 287,7 billions (202%) in relation to December 2007. On the other hand, the banks have been intensifying the inter-banking exchange of liquid, with the resources of other financial institutions representing 10,07% of the collections in December 2008, against 4,79% in December 2007.

In terms of profitability, as referred above, the aggregate results demonstrated a growing tendency, as a consequence of the institutions pledge in the operations of pure financial intermediation and bond applications.

The intermediation activities enabled the banking system a product of about Kz 176,8 billions, which represented a significative increase of 59,39%, in face of the face Kz 83,9 billions of 2007. Just as the previous year, the banking profitability was significative, supported by a financial margin of Kz 82,7 billions and it represents 61,87% of the banking product in 2008, against 61,68% registered in 2007. The weight of the bond interests in the banking product, although it is inferior to the credit interest that correspond to 48%, registered an increase of 10,69 percent, that is, 36,27% against 25,69% in 2007.

The net remuneration of the assets (ROA) fell from 2,66% in 2007, down to 2,48% in 2008 due to the sharp increase of the bank investments, particularly at the level of application to credit operations, bonds and property. This fact encouraged the total assets to grow in 90,33%. Meanwhile, the return of invested capital (ROE) augmented to 35,52% in 2008, against the 23,58% in 2007, revising the high profitability of the banking business, in face of its main undertakings, credits and bonds.

The prudential norms were in general, observed by the banking system, both from the point of view of adjustment to the invested capital both in relation to the risks for the assets, and the point of view of limit of immobilization of the banks and the level of exposition to cambial risks.

In average, the minimum capital of the banks was situated above the regulated minimum of Kz 600,00 billions, and the structure of the own funds facilitated a ratio of solvability consolidated of 15,42% in 2008, against 25,11% in 2007. Despite the decrease of 9,69 percent, resulting in part from the increase of risky assets, but also of the incorporation of capital demand to cover the cambial risks and for ratio calculation and the permissible solvability, this indicator is situated above the minimum standard of 10%, constituting, in average, a security factor for the Angolan banking system.

Although it has increased 10,22 percent in relation to the homologous period and reaching 46,11% in 2008, the system immobilization index continues to be bellow the limit of 50% as established by the Central Bank.

Currently, the most expressive risks of the banking activity are, the credit risk, the risk of cambial variation, and the liquid risk.

In Angola, the credit risk that originates from the borrower incapacity to meet its credit commitments is associated to factors such as, the high inflation rate, high interest rate the fragility of guarantees and of the judicial system and the inadequate methods of evaluation of the borrower profile by the banks, aggravated by the absence of a database of credit risk. Despite the observed fragilities, the quality of the banking assets was situated at acceptable levels in 2008, having observed a decrease of 0,43 percent of the credit settled in 2008 in relation to that of 2007. This means that, the assets under risk of loss in the overall consolidated bill of credit was 2,49% in 2008, compared to 2,92% in 2007.

Regardless of the stabilization of the exchange rate, the cambial risk is still very high, specially due to the high levels of “dollarization” and the strong dependence of the economy to import of goods and services. As a result of the increase of credit and the applications in foreign currency, in 2008, the excess of assets FC in relation to the liabilities FC changed from kz 52,2 billions in 2007, to Kz 157,8 billions in 2008, and for a long cambial exposition of 85,81% in relation to the self funds of 32,53% in 2007. The current long exposition is in accord with the 100% limit established by the BNA.

The risk of liquid is situated in a relatively acceptable level in the national banking system, considering that the liquid assets, including the bonds, represent in 2008, about 84,86% of the short term liabilities, against 63,13% in 2007.

Despite the stability of the national currency and the relative control of inflation, the main risk factors of the Angolan banking system come from the great preference of the economic agents for liquid and the high levels of “dollarization” that is still prevailing in the economy.

#### **4.- THE FISCAL AND BUDGETARY POLICY**

##### **4.1.- Introduction**

The budgetary policy was designed according to Government guidelines on the consolidation of the macroeconomic stabilization, and the creation of the best conditions for economic growth.

The objective of the economic policy passed by the Government, ratified by the National Assembly, and accommodated the budgetary policy were the following: The consolidation of peace and national reconciliation, the establishment of the foundation for the establishment of a self sustained economy, the reestablishment of the State Administration in the whole national territory, the development of human resources, the harmonious development of the territory, and the consolidation of the democratic process.

From the more specific point of view of the matrix of programs and the State general budget activities, we point out: The improvement of basic social service delivery and the promotion of social harmony (through the social function of the national budget), the consolidation of the macroeconomic stabilization process – in particular, seek to ensure a moderate growth of prices – and the boosting of employment creation.

The framework for implementing the budgetary policy in 2008 are in the table below:

**TABLE OF MACROECONOMIC REFERENCE**

	<b>2007</b>	<b>2008 programmed</b>	<b>2008 Implemented</b>
<b>Inflation goal</b>	11,78	10,00	13,17
<b>Annual oil production (millions of barrels)</b>	619525,1	710600,3	695686,7
<b>Average oil Price</b>	70,04	55,0	93,7
<b>Nominal GDP in billions of Kz</b>	4637,7	5913,7	6373,7
<b>Real GDP growth rate (%)</b>	20,86	15,8	13,61
<b>Real oil GDP growth rate (%)</b>	20,20	14,7	12,3
<b>Real non-oil GDP growth rate (%)</b>	21,49	17,1	15,2

**SOURCES:** Economic Report 2007, Ministry of Planning (Macroeconomic Table) and Ministry of Finance (Budgetary Implementation 2008).

Just as referred in different paragraphs of this Economic Report, the dynamic of growth of the non-oil sector has been very high since 2003, having been expressed by a real growth rate of 15,2% in 2008.

Towards the end of 2008, the period in which the most perverse symptoms of the world financial and economic crisis started to rise, the fall of the oil exports had its reflexes on the capacity to maintain the pace of growth from the previous years. The consequence was the registration of variation rates inferior to the expected.

In fact, the Government had already anticipated this possibility, projecting growth rates inferior to those of the previous years.

In the area of price monitoring, the inflation registered a fall of over three percent, fundamentally explained, by the hardness of supply of goods and services, the congestion of ports and the incidence of the high bureaucratic prices of the State Administration.

According to the Report on the Implementation of the State Budget 2008, the backbone of the budgetary policy were the following: Preparation of a broad tributary reform and the implementation of improvement measures for the tributary administration services, and the expansion of tribulation income and consumption, to adjust the fiscal benefits to productive investment and financial coverage of the Government actions to achieve its general and specific objectives established by its program of action.

Thus, some very important measures have been implemented, such as:

- Revision of the seal tax law, in order to modernize and simplify it.

- Punctual revision of the Industrial tax law.
- Implementation of the Counselling and Processing Centre, in order to facilitate trade (a National Commission was established, composed of importers and exporters).
- Establishment of customs benefits (total exemptions) for imports of equipments, raw-materials, and intermediary goods.
- Tax exemptions – with exception of the seal tax – in the export of national or nationalized goods.
- Definition of the rules of origin of goods to be considered national.

## **4.2.- Budgetary implementation**

### **4.2.1.- Public Revenues**

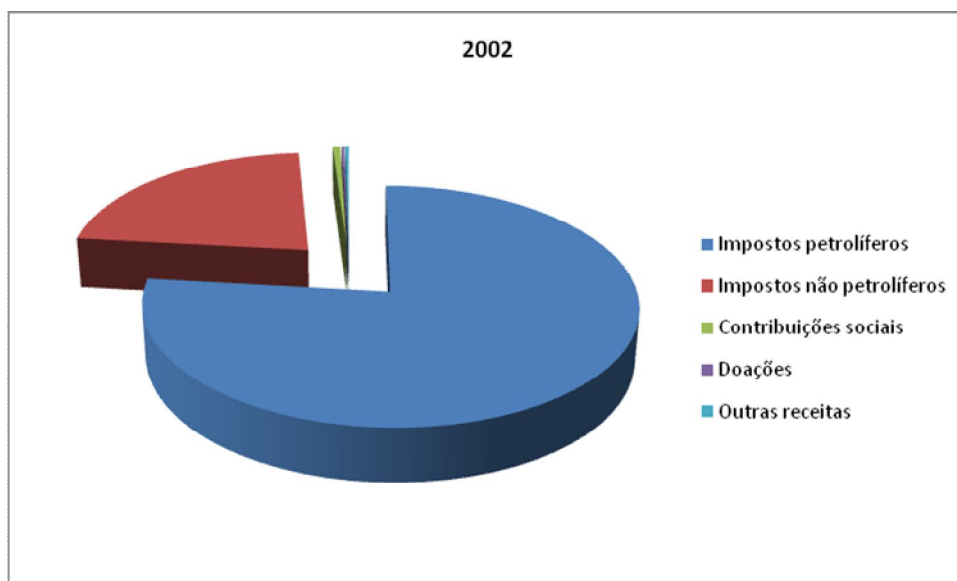
The total revenue realized in the 2008 exercise amounted Kz 3200,3 billions (about USD 42,7 billions), 28,9% above that which had been programmed. This difference is explained by the positive deflection of the price of oil barrel, over 70% in relation of the considered USD 55. This percentage was more than sufficient for compensating a decrease in oil production (-2%), originating the above mentioned extraordinary profits.

The current revenues (59,7% above the programmed) grew to the 2002 prices, about 33,8% in relation to 2007, attesting thus, a growth in the fiscal importance of the non-oil sector and a better management of the tax collecting process.

In regard to the capital revenues – estimated in Kz 224,2 billions – occurred between 2007 and 2008, a fall of over 66% in relation to the expected result. However, the appreciation made in the 2007 Report on the existence of some inactivity associated to the synchronization between the established goals, the levels of implementation, and the conditions for the implementation of the associated projects.

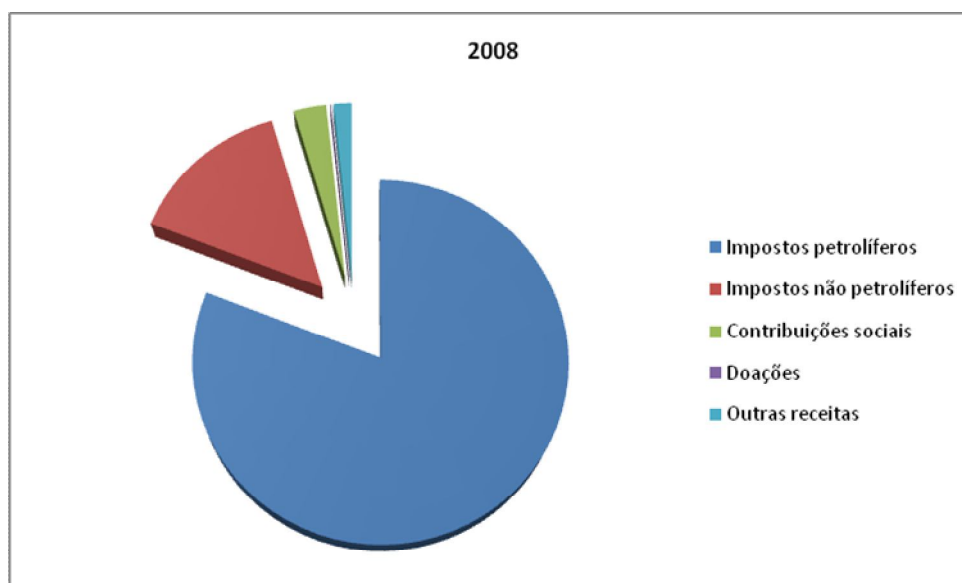
The taxes from the mining activities and oil exports continue to be dominant in the fiscal structure of the country. As a matter of fact, from 2002, this component of national revenues have been presenting a tendency of reinforcing its relative participation. Despite the progress achieved in monitoring the taxes of non oil activities and the growth rate of activities linked to Agriculture, manufacture, building construction and different services, the oil fiscal hegemony prevails.

### FISCAL STRUCTURE



SOURCES: Economic Report 2007

### FISCAL STRUCTURE



SOURCES: Economic Report 2007 and Ministry of Finance, Budgetary Implementation 2008.

The dynamics of tax growth have been very positive since 2002, and this can be proved by the values of the table below:

#### GROWTH RATES IN PRICES OF 2002 (%)

	2003	2004	2005	2006	2007	2008
<b>Oil taxes</b>	13,0	23,3	55,0	39,6	14,1	33,5
<b>Non-Oil taxes</b>	23,3	6,6	24,0	13,1	23,9	25,1
<b>Overall taxes</b>	15,3	19,3	48,4	34,9	15,5	32,2
<b>GDP</b>	5,2	11,3	20,6	18,6	20,86	13,61
<b>Oil GDP</b>	-2,2	13,1	26,0	13,1	20,20	12,30
<b>Non-Oil GDP</b>	7,0	9,6	17,7	19,6	21,49	15,20

SOURCE: CEIC, Macroeconomics team.

#### 4.2.2.- Public expenditure

The public expenditure implemented in 2008 rose to Kz 2653,7 billions, and correspond to an implementation rate of about 90% (clearly higher than the 78% registered in 2007). The above mentioned amount of expenditure represented in nominal term, a growth of 65,9% in relation to 2007. That is, a relative increment higher than the registered inflation rate. This growth dynamics of public expenditure – that also occurred in real terms – have also been influencing the increase of capitacion, whose value in 2008 was USD 509,4, in relation to USD 350 in 2007 and USD 180,1 in 2004.

The highest implementation levels were registered in relation to the expenditures with the State employees – civil servants, military, police and security services, -- and to the subsidies.

One of the most relevant aspects of the implementation of public expenditure is related to the implementation of public expenditure is related to the component of acquisition of financial assets, in which, public investments are the most relevant. As a matter of fact, this was the area of State intervention that, in average, grew up the most between 2003 and 2008.

#### REAL GROWTH RATES IN PRICES OF 2002

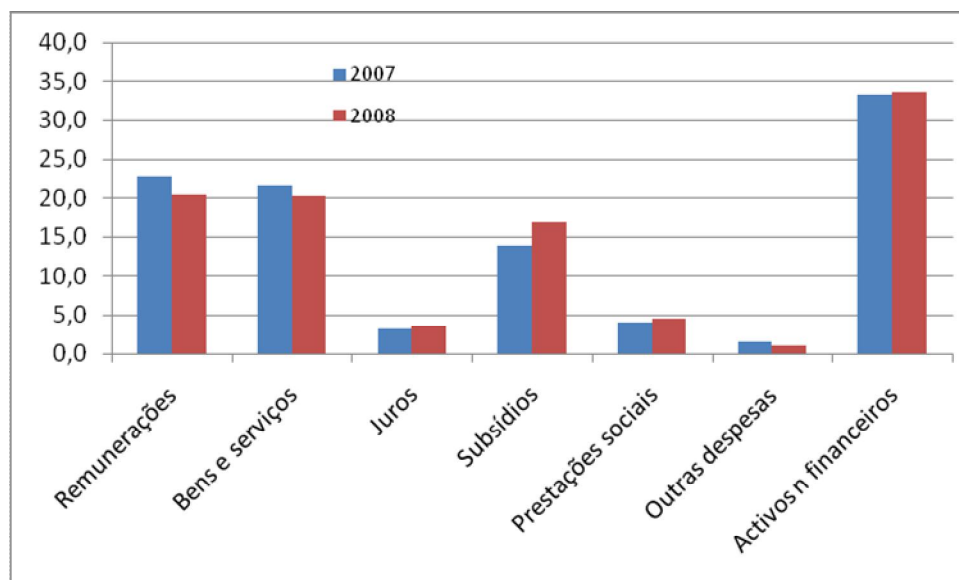
	2003	2004	2005	2006	2007	2008
<b>GDP</b>	5,2	11,3	20,6	18,6	20,86	13,61
<b>Overall Expenditure</b>	16,2	-8,7	20,4	22,8	31,6	46,9
<b>Current Expenditure</b>	14,2	-4,1	16,0	-3,7	32,8	45,7
<b>Public Expenditure</b>	6,3	157,6	44,0	212,4	12,7	46,1
<b>Subsidies</b>	57,3	57,2	-13,0	-8,9	81,5	80,9
<b>Interests</b>	-25,9	9,8	11,3	-20,5	4,5	65,6

SOURCES: CEIC, Macroeconomics team.



In nominal terms and regarding 2008, the structure of public expenditure increases the importance of the State investments in the reconstruction of the national economy.

#### EVOLUTION OF THE STRUCTURE OF PUBLIC EXPENDITURE



**SOURCE:** Ministry of Finance, Budgetary Implementation Report, 2007 and 2008.

Although the social services represent just a little bit more than 4% of the overall public expenditure, its growth dynamics has been very interesting, in order to correspond to one of the Government purposes regarding the need to improve the living conditions of the majority of the population.

#### NOMINAL EXPENDITURES (IN BILLIONS OF KWANZAS)

	2007	2008	Variation Rate
<b>Overall Expenditure</b>	1599,5	2653,7	65,9
<b>Remunerations</b>	364,5	543,0	49,0
<b>Goods and services</b>	343,9	539,1	56,8
<b>Interests</b>	50,9	93,9	84,5
<b>Subsidies</b>	219,9	443,4	101,6
<b>Social services</b>	64,4	116,9	81,5
<b>Other Expenditure</b>	24,6	24,8	0,8
<b>Financial assets</b>	531,3	892,6	68,0

**SOURCES:** Ministry of Finance, Budgetary Implementation Reports, 2007 and 2008.

#### 4.2.3.- Expenditure per activity

The Government program for 2008, put in perspective, within its actions, a greater attention for the social issues, pointing out the continuation of social and productive

reintegration of the demobilized soldiers and displaced people, the improvement in the delivery of basic social services, and the promotion of social welfare.

These options resulted in significant changes in the increase of the relative weight of the social and economic function of budgetary policy.

EXPENDITURE PER ACTIVITY							
	2002	2003	2004	2005	2006	2007	2008
<b>Social</b>	16,1	12,7	17,6	28,8	28,9	35,6	28,0
<b>Economic</b>	7,4	8,9	7,2	9,0	15,2	21,7	28,5
<b>Defence and Security</b>	15,3	13,8	22,8	23,3	19,3	17,8	18,2
<b>Public Services</b>							
<b>General Government</b>							
<b>Expenditure</b>	34,1	47,9	20,8	22,9	14,7	14,6	14,4
<b>Financial load</b>	27,1	16,8	31,6	16,0	21,9	10,3	10,9
<b>TOTAL</b>	100,0	100,1	100,0	100,0	100,0	100,0	100,0

#### 4.2.4.- Budgetary balance

The macroeconomic stabilization may also be evaluated by the dimension of the fiscal deficits. The results obtained with the reforms and the improvement verified in the fiscal and budgetary administration and management have been positive, as may be explained by the results below.

#### EVOLUTION OF THE BUDGETARY BALANCE

	2002	2003	2004	2005	2006	2007	2008
<b>Fiscal Deficit /GDP(%)</b>	-7,5	-7,2	1,1	8,5	9,9	11,4	8,8

SOURCE: Ministry of Finance, Budgetary Implementation Report.

## 5.- GENERAL LEVEL OF ACTIVITY

### 5.1.- Introduction

During the last 10 years, the so called accountability of the economic growth – coincides with the analysis of the growth components from the angle of the aggregate economic demand – was totally in favour of the external components of the Gross Domestic Product, such as the private foreign investment in oil and in the diamonds and the export of the respective products. This asymmetrical structure in the two most important variables of the country economic growth brings about perverse results, such as

the extroversion, the transfer of an important percentage of revenues abroad<sup>51</sup>, The dependence of the behaviour of world markets (demand and prices) and, may be the most important effects of the profit making economies, the Dutch disease depresses the rest of the economy and worsens the general conditions of the population. The exports of the Angolan oil represented 97% of total exports in 2008 – a decline, compared to 2007, when the economy accommodated 94% of total external sales – and the remaining, including the diamonds, were situated in mere 2,5%. An amount of 97% concentration indicates well the dimension of the external dependency and the extension of the Dutch disease in our country. As a matter of fact:

- The greatest growth dynamics in the recent past 10 years occurred in the enclave sectors, with growth tendency rates of 12,4% between 2000 and 2008 and 16,8% between 2004 and 2008 for Oil, and 12,8% between 2000 and 2008 for diamond mining;
- To greatest contribution to growth in this very period came from the Oil sector, with 11,4% in 2007 and 7,1% in 2008; The contribution from Agriculture (2,2% and 0,16% for the same years) and from the manufacturing Industry (1,7% and 0,74% respectively, for 2007 and 2008) indicate that there is still a long walk to achieving a national structure of a diversified economy;
- The oil weight declined in 2008 (57, 6% of the GDP), in relation to 2007 (55,8%);
- The Oil exports have been increasing systematically, with annual average growth rates of about 12%, confirming the excellent international situation of the crude.

According to the CEIC estimates, the foreign private investment in the Oil and diamond mining sector represented 91,4% of the total private investment and 58,1% of the total investment (including public investment), indicating thus, the seriousness of the asymmetries of the Angolan economy.

However, the analysis of investment – as mentioned previously – has another dimension, of its inclusion in the function of global production. So, the consequences over the economic system are structural and very important, considering that it stems from the productivity. Investment – whatever it is – in the primary source of productivity, which in its turn, is the only factor of non- inflationist increment of wages and profit. Furthermore, productivity is the main component of competitiveness among the countries and it needs to be structured and grounded in elements such as technology, innovation, capacity to generate knowledge or adaptation to imported knowledge, the quality of

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<sup>51</sup> Just in 2008, the transfers of profit bonds, dividends, salaries, and interest – the known revenues – reached an amount of 12718,6 billion dollars, 15% of the GDP. A waste that occurs every economic year. In regard to work income – payment of foreigners – the national economy disbursed 673 million dollars.

physical infrastructure, Public Administration, the Judicial system, education and health. Only then, it may be valid and represent de facto comparative external advantages.

The investments made in 2008 – 32675,1 billion dollars according to the CEIC estimates – transmitted more quality to the production process, there for the dexterity of getting from them more efficiency has, for sure, increased. But, the maximum of efficiency depends from the Excellency of the employees who are restricted in the enclave, in the case of Angola. In the rest of the sectors, the quality of work and its capacity to generate added net value are few, reason of why it is said that the general productivity of our economy is low. The CEIC (see chapter eight, about Employment and Productivity) establishes and estimation for the same year 12500 dollars per employee. Any of this medium values hide unequal sectorial realities: 1230 dollars for agriculture and 3130000 dollars for oil and 55870 dollars for diamonds.

Or: our economy does not have the required conditions for the private and public investment to produce at a higher level, a case which only happens in sectors of activity which depends from other conditions which exist for functioning.

## 5.2. - Gross Domestic Product

The lines for economic growth remain stable, being reinforced with the variation rates of **GDP** registered in 2007 (about 20,9% for the factor cost).

But, and according to information for the last years – after 2002 – the tendencial growth rate has been increasing, reaching 15,5% in 2002-2008, the highest in the South Sahara region of the African continent and one of the highest in the world (for the referred period).

**TENDENCY LINES OF THE ANGOLAN ECONOMIC GROWTH**

	1980-2002	1980-2004	1980-2005	1980-2006	1980-2007	1980-08	2002-06	2002-07	2002-08
<b>Tendency rates</b>	2,1	2,6	3,4	4,0	4,5	4,8	14,8	15,8	15,5

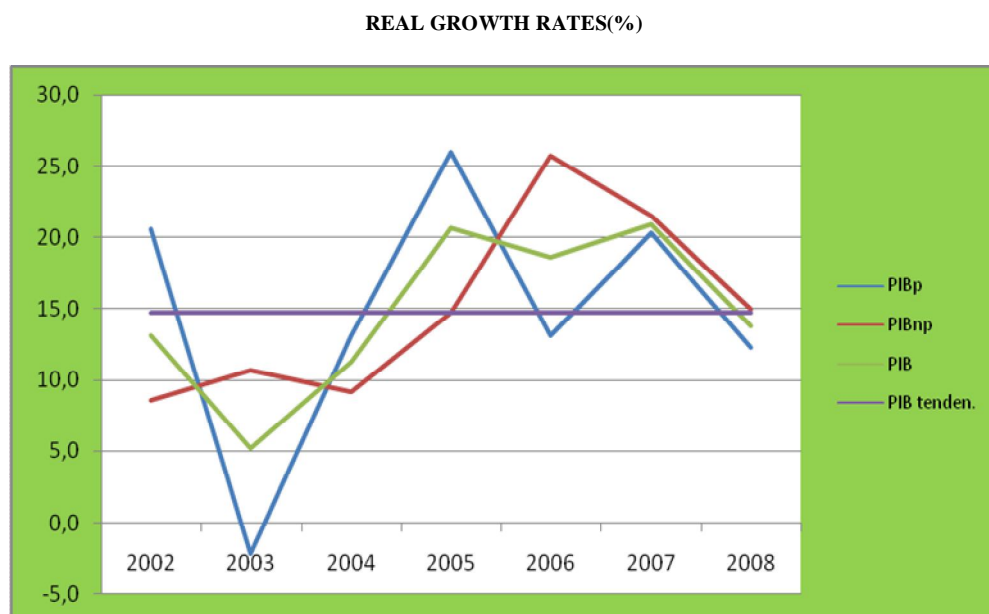
**SOURCES:** Evaluation Report of the implementation of PGG of 2005, 2006 and 2007. African Development Indicators, World Bank, 2005. World Economic Prospects 2008, World Bank. Estimation from CEIC.

Nevertheless, the big line of tendency 1980-2008 (28 years) remains low (5,7%) allowing an increase of 2,7% to the living conditions of the population.

2005, 2006, 2007 and 2008 are, up to now, the best years after independence, and they are responsible for the change of the tendency line for the 28 years (long term). This confirms the economic meaning and importance of peace. The growth tendency in short term 2002-2008 is the most representative in the big economical cycle after 1980.

The expectations for the next two years – as presented in chapter 10 – are not the best, there for the big tendency lines of the economic growth will be adjusted downward.

In relation to the annual growth of the oil, non oil and non mineral GDP is shown in the following diagram.



**NOTES:** GDPp – Oil GDP. GDPnp – Non-Oil GDP. GDP tenden. – tendency GDP.

It is verified that the non oil GDP is much more stable than the other economic activities. This verification corresponds to the economic results of the private and public investments in infrastructures and other non mining activities.

Yet, the approximation in 2008, of the growth line of the non oil economy of the tendency line of growth in 2002-2008, shows the effects of the international financial crisis at the end of the year.

The temporal general panorama (2001/2008) of the national economy is presented in the following table

<b>GROSS DOMESTIC PRODUCT</b> (Millions of current dollars)								
SECTORS	2001	2002	2003	2004	2005	2006	2007	2008
<b>Agriculture and fishery</b>	726,8	913,7	1136,5	1838,4	2602,7	3719,2	4765,7	6974,8
<b>Oil and refined</b>	4562,4	6151,1	6673,4	9855,6	17038,9	26736,1	33173,3	48341,3
<b>Diamonds and others</b>	548,8	539,6	627,8	583,7	884,7	1152,4	1055,3	941,7

<b>Manufacture</b>	345,1	422,1	526,1	909,7	1240,8	2274,0	3155,2	5654,4
<b>Energy and water</b>	3,6	4,8	5,4	37,9	30,3	44,5	49,3	64,0
<b>Building Constructions</b>	322,1	392,7	492,6	890,8	1240,8	2067,8	2931,5	3740,8
<b>Services</b>	1376,3	1609,0	1965,2	2615,5	4509,4	7927,6	10054,4	13015,5
<b>Others</b>	831,2	1207,0	2086,1	2274,4	2723,8	4015,6	4263,5	5169,9
<b>GDP</b>	<b>8716,4</b>	<b>11239,8</b>	<b>13513,2</b>	<b>19006,1</b>	<b>30271,5</b>	<b>47937,3</b>	<b>59448,2</b>	<b>83902,4</b>
<b>Non mining GDP</b>	<b>3605,1</b>	<b>4549,2</b>	<b>6211,9</b>	<b>8566,8</b>	<b>12347,9</b>	<b>20048,7</b>	<b>25219,6</b>	<b>34619,4</b>
<b>Non oil GDP</b>	<b>4154,0</b>	<b>5088,8</b>	<b>6839,8</b>	<b>9150,5</b>	<b>13232,6</b>	<b>21201,2</b>	<b>26274,9</b>	<b>35561,1</b>
<b>GDP/hab.(usd)</b>	<b>595,2</b>	<b>745,8</b>	<b>871,4</b>	<b>1191,1</b>	<b>1843,6</b>	<b>2837,2</b>	<b>3419,4</b>	<b>4689,9</b>

**SOURCES:** Ministry of planning – Behaviour of the Economy in 2004, April 2005. Government of Angola – Evaluation of the Government Program in 2005, 2006, 2007 and 2008. Estimations from CEIC.

The growth rate of the Gross Added Value from the oil sector in 2008, about 45,7%, in current prices, was the joint result of a variation of 12,3% in the production of 28,4% in the oil price and of 1,1% of the productivity profit (in 2007, the same effects were 20,4% for the production, 13,5% for the price and 3,8% for the productivity effect).

The diamond mining activity had a very complicated year due to the disastrous fall down of the carat price in the world market. The loss of the external demand determined a significant reduction in the production within the sector, calculated around -8,6%. The world prices of these products fell down to 1,8%, compared to the average from 2007 and 2008. However, between July and December 2008 the decrease was 48%. The interventions of the Government to protect employment in this area of activity shows the difficulties during the last part of the year 2008 and those which are still to come before the world economy is recovered.<sup>52</sup>.

Concerning the structural changes, the situation remains the same from the perspective of deep sectorial asymmetries.

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<sup>52</sup> The activities related to the production of luxury goods are, normally in situations of economic crisis, the first to register the consequences and the last to recover.

**STRUCTURE OF THE ANGOLAN ECONOMY IN CURRENT PRICES**  
(Values in percentage)

SECTORS	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture and fishery	8,3	8,1	8,4	9,7	8,6	7,8	8,0	8,3
Oil and by products	52,3	54,7	49,4	51,9	56,3	55,8	55,8	57,6
Diamonds and others	6,3	4,8	4,6	3,1	2,9	2,4	1,8	1,1
Manufacture	4,0	3,8	3,9	4,8	4,1	4,7	5,3	6,7
Energy and water	0,0	0,0	0,0	0,2	0,1	0,1	0,1	0,1
Building Construction	3,7	3,5	3,6	4,7	4,1	4,3	4,9	4,5
Services	15,8	14,3	14,5	13,8	14,9	16,5	16,9	15,5
Others	9,5	10,7	15,4	12,0	9,0	8,4	7,2	6,2
GDP	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Non-mining GDP	41,4	40,5	46,0	45,1	40,8	41,8	42,4	41,3
Non-oil GDP	47,7	45,3	50,6	48,1	43,7	44,2	44,2	42,4

The values above confirms that for more than 10 years the structure of the national economy remains unbalanced – the average weight of the mining sectors between 1997 and 2008 is around 57,7%<sup>53</sup> - and disarticulated, because there is no economic relationship between oil and diamonds and the rest of the economy. The most dramatic case of loss of the relative economic importance is of the primary sector of the economy (agriculture, cattle breeding, forest and fishery) with a representative average of 8,4% between 1997 and 2008.

The value of 57,7% is very worrying, making the Angolan economy a mineral based in spite of high growth rates of the other sectors of activity and the signs of *spill over effect* reported previously. The incentive policies to diversify the internal economic structure have to be more aggressive and able to stimulate in order to oppose the signs of the economic crisis and the lack of confidence from the economic agents and investors due to the risks associated with the international financial crisis.

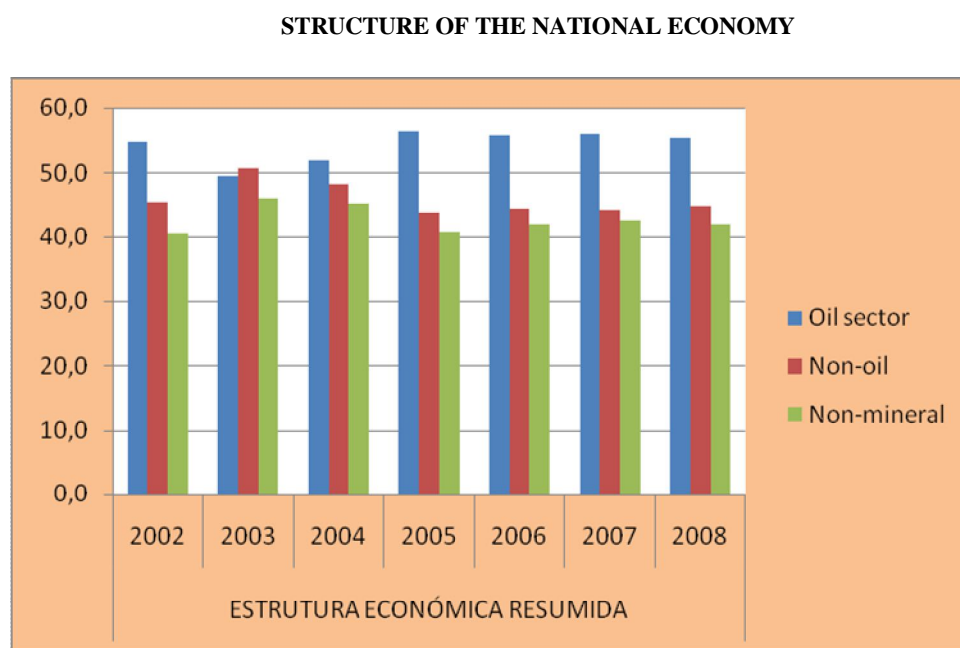
The announced financing for agriculture – about 350 millions of dollars – the huge construction program of a million houses by 2012, the different projects announced in the national conferences about the manufacturing industry, agriculture and housing can help to pinch up a diversification process of the national economy. The suspicion is related to our capacity of realization and the financial availability of the domestic banking system, when the state is disputing the national private savings to cover its

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<sup>53</sup> This value confirms the lack of diversification of the economic activity in Angola as already announced in paragraph 2.2.

budgetary deficit and sustain the program for public investments. Toward the international financial crisis the deficit of the internal entrepreneurship capacity may not be covered by the private foreign investment, because some of the foreign investments are not structurally good.

The structure of the national economy is synthesized in the following diagram.



**SOURCE:** Ministry of Planning.

Questions related to agriculture and rural development in our country are discussed in the next paragraph, calling up the attention to the lack of institutional conditions and fitting for the development of agriculture and to rationalize some of the public investments. The GDP growth rate in agriculture was 1,8% in 2008, an evidence that if the structural problems of functioning in the sector are not solved its activity will always be exposed to the cyclic influences and climate irregularities.

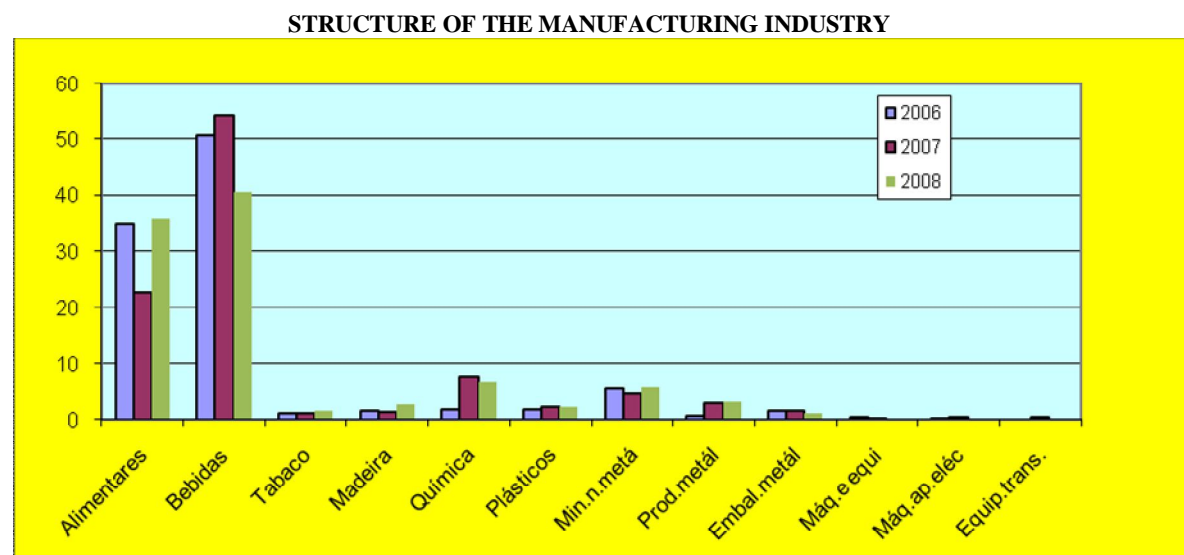
It should not be forgotten that the primary sector is the one which can help quickly and in a sustainable manner the reduction of poverty (check Economic Report 2005, chapter of poverty, page 17, some relationship between development in agriculture and poverty reduction).

The manufacturing industry, although has increased its economic representation in the GDP generation during 2006, 2007 and 2008 it is still a weak sector and internally



inbalanced, in which the industries for food and beverages contributed with more than 85,6% of the aggregate value in 2006, 77,3% in 2007 and 76,4% in 2008<sup>54</sup>.

The following diagram shows that in 2008, some interesting structural transformations took place, such as the rise of a key sector for the increasing of internal aggregate value and the diversification of exports. In this situation are found the light chemistry industry and in a very low scale the industry of plastics.



SOURCE: Ministry of Industry.

The allotted dynamics of the production industry growth in 2008 have proven to be less structuralized activities and of a slight nature, although important from the perspective of Job creation and profit, the most important in the current phase of regenerating the national sector of manufacture.

<sup>54</sup> There is an ambiguity concerning the real representation of the national manufacture in GDP, caused by the abnormal institutional classification of industries, which prevents the application of a comprehensive strategy of growth and modernization, limited to the understanding of the policies.

## DYNAMICS OF GROWTH OF THE INDUSTRY PRODUCTION



SOURCE: Ministry of Industry.

It is expected that more public investment be allocated, which can help to structure a sector which has been a leader of the economic growth and expressive results from the industry development area of Fútila, Viana, Catumbela, Caála e Matala. In this sense, it is important to rehabilitate in active manner the infrastructure of transport, production and distribution of energy and water and guarantee an efficient and lucrative functioning of factories and business units.

A simple and linear calculation, but of concern: the annual average growth rate from the manufacturing industry until 2015 needed for this year to present 1/3 of GDP, corresponds to about 60% of the current participation of the oil sector in the economic activity (57,6%), admitting an annual growth of the national economy of 12%, is about 41,1%. It means that the industry Gross Added Value until 2015 should be multiplied by 16! Despite being linear, these exercises gives an idea of the national handicaps and its dimension.

It is expected that the public investment program and private dynamic in construction can change in an expressive way the status of energy, water and building construction sectors in 2009.

The tertiary sector maintained its position in the national economic system with an increase of 2 percent compared to 2005 inspite of the intensive economic growth rate verified.

**REAL ANNUAL GROWTH RATE AVERAGES**  
(%)

SECTORS	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture and fishery	18,0	13,4	11,7	14,1	17,0	9,8	27,4	1,9
Oil and by products	-1,0	20,6	-2,2	13,1	26,0	13,1	20,4	12,3
Diamonds and others	19,5	-2,1	19,8	0,8	16,2	30,9	5,1	-8,6
Manufacture	9,8	10,3	11,9	13,5	24,9	44,7	32,6	11,0
Energy and water	10,0	21,3	0,2	11,5	17,4	13,2	8,6	26,1
Building and construction	8,5	10,0	12,6	14	16,9	30,0	37,1	25,6
Services	6,0	11,6	9,9	10,4	8,5	38,1	21,8	26,9
Others	1,0	2,5	1,9	2,5	2,6	8,2	4,6	1,9
GDP	5,2	13,2	5,2	11,3	20,6	18,6	20,9	13,8
Non-mineral GDP	8,7	10,1	9,5	4,4	14,9	25,4	22,4	16,6
Non-oil GDP	10,0	8,5	10,7	9,1	14,7	25,7	21,5	15,2

**SOURCE:** Ministry of Planning.

It is important to mention that the fishing activities registered a negative performance in 2008 calculated in about 2,4% of the GDP fall. Different problems explains this behaviour, from the early construction of some infrastructures to support the sector, the imposed sales, the equipments got obsolete and the low quality of the employees and Angolan loaders<sup>55</sup>.

The following table explains partial contribution to the GDP growth rate during the period of 2001/2008<sup>56</sup>.

**CONTRIBUTION TO THE ECONOMIC GROWTH**  
(%)

SECTORS	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture and fishery	1,50	1,09	0,98	1,36	1,46	0,76	2,20	0,16
Oil and by products	-0,55	11,27	-1,08	6,79	14,63	7,31	11,36	7,08
Diamonds and others	1,23	-0,10	0,92	0,02	0,47	0,74	0,09	-0,09
Manufacture	0,39	0,39	0,46	0,65	1,02	2,12	1,73	0,74
Energy and water	0,00	0,01	0,00	0,02	0,02	0,01	0,01	0,02

<sup>55</sup> Ministry of fishery, Implementation Report, 2008.

<sup>56</sup> The growth rate acquired from the sum of different parts, do not correspond with the ones showed above due to the deflation differences.

<b>Building construction</b>	0,31	0,35	0,46	0,66	0,69	1,29	1,83	1,17
<b>Services</b>	0,95	1,66	1,43	1,43	1,27	6,30	3,69	4,17
<b>Other</b>	0,10	0,27	0,30	0,30	0,23	0,68	0,33	0,12
<b>GDP</b>	3,93	14,94	3,48	11,24	19,80	19,22	21,23	13,76
<b>Non-mining GDP</b>	3,25	3,77	3,64	4,42	4,69	11,17	9,77	6,38
<b>Non-oil GDP</b>	4,48	3,67	4,56	4,44	5,17	11,92	9,86	6,28

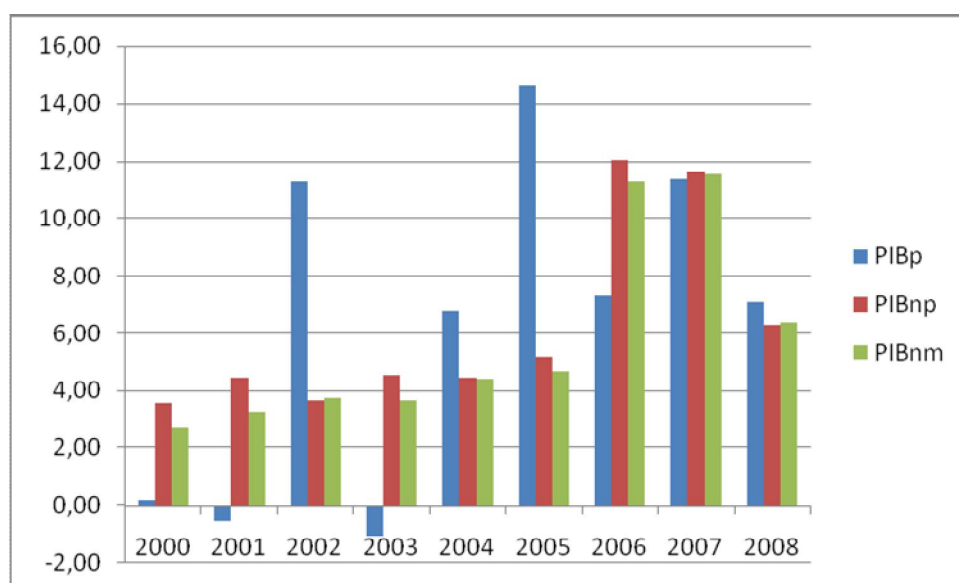
**SOURCE:** CEIC, Macroeconomics Team.

The following are considered as important notes:

- The high correlation between the global economic growth and the mining sector, with consequences on the rest of the economy in the perspective of external dependence;
- The high contribution of the oil sector in 2005, 2007 and 2008 (exactly in the year it was expected a rupture with the mining-oil sector), which represents the highest of all times to the economic growth in the country;
- The excellent performance from the non-oil sector in 2006, 2007 and 2008 as contribution to the economic growth in general;
- The moderated contributions of other sectors to the movement of the economic growth, although the behaviour of the manufacturing industry has to be mentioned here due to its growth rate from 2005 and 2007 increased the contribution to the national economic growth.

The contributions to the general economic growth are shown in the table below.

### CONTRIBUTIONS TO THE ECONOMIC GROWTH



SOURCE: CEIC, Macroeconomics Team.

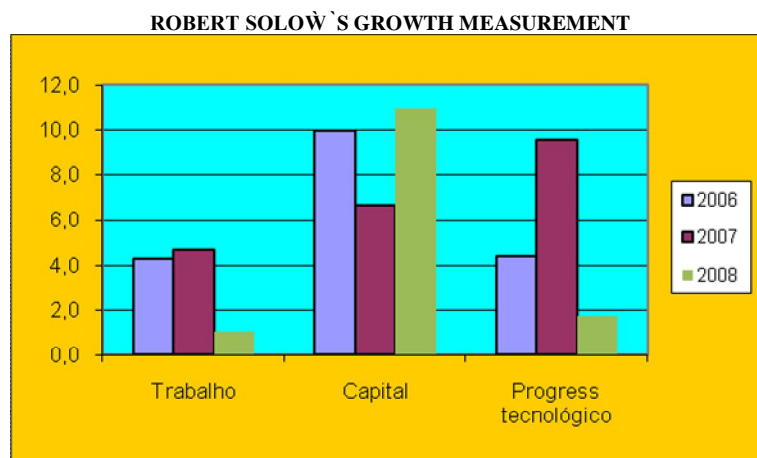
NOTES: PIBp – Oil GDP. PIBnp – Non-Oil GDP. PIBnm – Non-Mineral GDP.

So, the economic growth model of Angola still has an external dependence with one of the highest degree of openness to the world (with an average of 124,1% for 2002 and 2008 for addition of exports and imports in GDP<sup>57</sup>), an expressive duty of external investment and financing and a dependence of import in all kinds of goods from long and short term consumption goods to capital goods. The example of the Chinese loan represents a bad sign of external financing and the credit programs in particular because the major part of the needed materials come from overseas.

The measurement of the country economic growth – using the Solow methodology shows that in 2006 and 2007 a decisive factor and the progress in technology, associated, mainly, to the foreign investment which has contributed a lot to the real variation of the Gross Domestic Product. In 2008 the major contribution came from the capital factor with a value of 10,9.

The following diagram shows the evolution of contribution of the three production factors between 2006 e 2008.

<sup>57</sup> It represents an improvement – although it is not a clear sign of diversity yet – compared to the average between 2000 and 2006 calculated around 130,7%.



SOURCE: CEIC, Macroeconomics Team.

The export duties from the two enclave sectors are shown in the following diagram.

#### EXPORTS OF THE ENCLAVE SECTORS

(The exports and imports values are fixed in thousands dollars)

ITEMS	2003	2004	2005	2006	2007	2008
Oil Production (thousand barrels)	319248	360992	454892	514629	619525	695683
Oil Exports (thousand barrel)	307965	333267	446304	512875	547909	679960
Exports/production (%)	96,5	92,3	98,1	99,6	88,4	97,7
Price of the oil barrel (usd)	28,8	38,3	50,6	61,4	70,0	93,7
Oil Exports and by-products	<b>8684613,0</b>	<b>12764115,5</b>	<b>22582982,4</b>	<b>31490520,0</b>	<b>38353630,0</b>	<b>63712252,0</b>
Diamond Production (1000 carats)	6063,0	5552,7	7084,3	9269,9	9744,4	8911,5
Diamond Exports (1000q)	4946,1	6716,3	7085,9	9010,2	7815,5	7147,5
Karat Price (usd)	129,98	118,22	154,17	126,61	133,73	131,3
Diamond Exports	<b>642894,1</b>	<b>790427,8</b>	<b>1092432,4</b>	<b>1140784,1</b>	<b>1045160,2</b>	<b>938463,1</b>
Other exports	<b>73787,0</b>	<b>244000,0</b>	<b>610817,4</b>	<b>715200,0</b>	<b>458910,2</b>	<b>915528,2</b>
Total of the market Exports	<b>9401294,1</b>	<b>13798543,3</b>	<b>24286232,2</b>	<b>33346504,1</b>	<b>39857700,4</b>	<b>65566243,3</b>

SOURCES: International Monetary Fund – Aide-Mémoires April 2005, March 2006, August 2007 and March 2009. Ministry of Planning – Economy Behaviour in 2004. Government of Angola – Balance of the Government Program 2005, 2006, 2007 and 2008. National Bank of Angola – Board of Studies and Statistic, Balance of Payments.

The exports of diamonds and oil represented an average of 98,9% of the total load sent overseas in 2008, compared to (99,4% in 2007) total of merchandise exported which represents a clear worsening compared to 2006, when the two products represented

97,8% (in 2005 represented 98,7%), which is a clear example of the dependence of our economy on the mining balance of the country. Furthermore, in other exports the contribution of the oil by-products represents 99,4%.

It is clearly justified the need of an urgent reflection about an economic growth format based in the diversification of exports of an internal added value, which would perfectly fit the replacement of certain imports, namely those from agriculture and food origin.

### **5.3.- Priority sectors for production variation**

The question of national economy diversification has been considered by the government with certain care favourable to a pro-active attitude from the private business community..

Sharing this national concern, the CEIC, has elaborated a reflection about some sectors of activities which could contribute to a sustainable replacement process of imports and diversification of the exports.

To limit single preferences about the establishment of sector priorities, some criteria were chosen through which the combination will be much clear.

The criteria are based on variables and indicators consecrated although its complete application is limited by the lack of statistic information from different sources.

#### **(a) Positioning in the network of the inter-sectorial relations**

It is a criteria based on a known relation Gross Added Value (GAV) / Gross Production Value (GPV) which measures, as known, the contribution of each sector to the national revenue for a certain period.

For a given sector to be considered priority in terms of encouragement measures, support and structure, the ratio GAV/GPV will be high or low? Everything depends on the extroversion level of the economy. A high relation of GVA/GPV and an expressive openness of the economy, means that the major part of gross added value generated internally is transferred outside the country. On the contrary a high “*score*” quotient GAV/GPV and a low extroversion rate corresponds to an endogenous production created internally and, consequently, to a better sharing of wealth and income in benefit of the national production factors.

A low relation GAV/GPV indicates a significant incidence of the intermediary consumption of production. Once more the level of extroversion is called to filtering: if a major part of these intermediary consumption comes from the exterior, the multiplier and condenser effect of the inter sectoral relationship network are low, being exactly the contrary if the raw material and other complementary products are national. This

condenser helps to built the internal market and deepens the level of inter-dependence, increase the competition and generate employment.

What is happening in the country in this regard? The answer is very difficult, if not impossible in a context of absolute absence of statistic of this type. When building the national matrix of inter sectoral relationship – a study Project from the Ministry of Planning – the definition of sector priorities will be, technically and methodologically possible, reducing the incidence of negative factors noted by the Public Choice Theory as reason of limitation to reach common interests in the decision making process by the government..

Information available for **oil and diamond activities** point to a relation GAV/GPV of 74% and 80% respectively. The ratio of extroversion is high for any of the sectors 93% for oil and 98% for diamond mining. So, the combination of the two indicators permits to conclude that **these two sectors of activity are not priorities in the construction of an integrated and articulated economy.**

Information collected for the remaining activities sectors – from the colonial period and international comparison – prove that agriculture, construction and manufacturing industry activities are the ones which create greater inter sectoral density, presenting, and consequently high values for the Intermediary Consumption Quotient /Gross Production Value. On the other hand the extroversion quotient is low. When they are prioritized the network of creating added value is high – because it reaches a bigger number of sectors – with more income and greater participation of the national production factors. As a conclusion from this perspective, **agriculture, construction and the manufacturing industry are priority sectors for the national economy reconstruction.**

From the point of view of this criterion, the production and distribution of electricity and water is an activity of high GAV/GPV, but with a strategic position in the creation network of sectorial densities, where its priority character is evident.

#### **(b) The argument of the role of family preferences**

This is another criterion to establish sectoral priorities with the objective of aggregating the process of reconstructing the economy. From the mathematic and economic perspective the role of family preference is the geometric place of social and individual utilities to which families attribute the satisfaction of certain needs. It uses to be part of the argument of this role, aspects such as education, health, etc. for the Angolan case, to this role should be added, hunger, poverty and unemployment. To establish priorities correspond to ordinate levels of importance to which family attribute or what do they think is more important or what is the first priority? Health, education, employment or living conditions?

Looking at the recent past we notice that the state – as the only decision maker for the satisfaction of common needs – attributed a reduced importance to education and health. With effect in 2004 and 2008 the budgetary expenses with education represented



in average in this period 2,4% of GDP and for health 1,8% of GDP. In terms of individual attribution of these expenses, in education they corresponded to 85,9 dollars. It is not a surprise that the level of poverty is the one known, the living condition of the population is the lowest of the world and the general productivity does not create conditions for structural competitiveness to the national economy.

Today unemployment is firmly high, around 25% of the population economically active and the general condition of life does not have an expressive improvement despite the *spill over effect*.

As a result and according to the criteria of the family preference role **education and health** assume one of first priorities in terms of collective needs to be satisfied by the state. In terms of human resource and sustainable development – which is of the interest of the state, companies, entrepreneurs and the society in general – education and health are its pillars justifying each and every investment made at the moment.

The elimination of hunger and reversion of absolute poverty point to **agriculture, cattle breeding, fishery and food industry** as priority sectors of the country's economy reconstruction.

#### (c) Greater capacity for employment generation

It was already said that unemployment reaches intolerable levels for the economy and the families. A high rate of unemployment is a sign of worse economic and social crisis meaning that the production system is unable to create sufficient value to employ the major part of the population economically active and available. Unemployment is the worse imbalance status for any economic system because despite de economic incidence on the internal demand represents a person's dishonour, disbelief of his capacity and a potential to criminality.

In recent past, the correlation between the economic growth and employment generation was positive and represented, normally, a coefficient of elasticity superior to the unity (1% of GDP growth generates more than 1% of new jobs).

Nowadays, with the sequential revolution on technology and science in products, in processes, organization and company management, in information and communication, unemployment seems to have established a weak relation of cohabitation with the economic growth.<sup>58</sup> It is not enough the economy to grow every year in order to satisfy the demand of people looking for job. This is the reason why it is important to define specific policies for employment, conducive to increasing the employees' qualification, to encourage self employment and improve the information about jobs available in other activities and other parts of the country.

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<sup>58</sup> To know more about unemployment in the 21st century, consult the fantastic book from Jeremy Rifkin – The End of Work, M. Books, edition of 2004, for the 10 years commemoration of the book.

The consideration of these criteria of choosing prior sectors is made using the coefficient of capital-job. Also in this aspect, national statistic does not refer to the existing standard sectors. As an alternative, results from REMPE can be used – Registration of companies and institutions made by the National Institute of Statistics in 2006.

#### EMPLOYMENT CREATED IN INDUSTRIES ACCORDING TO REMPE 2006

	Agric.	Fishing	I. Extra.	I.Trans	Electr	trade	Hot. Rerst.	Tran.Ar	Act.Imo	Other
<b>Employment</b>	12095	4185	24890	29856	6999	75312	18142	30000	29048	55160

If the information is correct, **trade, manufacturing industry, transport, immovable activities and other formal activities not specified** are the sectors with higher capacity to generate employment, in view of which should be taken as priority for the national economy reconstruction.

#### (d) Greater capacity for structuring and integrating the national economy

The internal integration of the national economy is a reinforcement factor for “*Angolanidade*” (Angolanhood) and consolidation of national reconciliation. The asymmetries between the coast and the inland region, mainly between Luanda and the rest of the country are a limitation to Job creation, to a fair wealth distribution of the national revenue, to the movement of people and goods and to the increment of the productivity.

In the previous introductory context, the structuralized elements of an internal economy, sectorial and especially integrated are:

- Efficient production networks, transport and distribution of **electricity and water** which reduces the operational costs of production, improve the life quality of the population and reduces the regional differences;
- Systems of **road transports, train and sea transports** able to reduce the business costs, increment the macroeconomic productivity and promote the free movement of people and goods;
- **Innovation Systems**<sup>59</sup> – in technology, organization and management – which improves the usage of raw material, intermediary products and employees and increases the productivity and improves the competition;
- **Financial systems** to support private investments promote and facilitate the productive investment in any sector and province.

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<sup>59</sup> Higher education and University training is fundamental in order to sustain the innovation system.

**(e) Human Resources and sustainable development**

The sustainable development is based on human development and it has to stand on guarantees of a sustainable use of the natural resources and the preservation of the environment (in other to secure renewal of the natural capital and the future of the coming generations). In relation to its structuralized elements we stress, firstly the following:

- Human resource with priority to **education, training and health;**
- Social capital with notability on the quality of the **Public Administration, of Juridical system** and the supporting systems to the citizen, association, entrepreneurship, cultural policy and business;
- Physical capital, with prominence to **roads, railways, harbour, electricity and water.**

**MATRIX OF CRITERIA RELATIONS – SECTOR OF ACTIVITY**

CRITÉRIA/ SECTORS	GAV/GPV	PREFERRED ROLE	EMPLOYMENT GENERATION	INTERNAL INTEGRATION	HUMAN RESOURCES AND SUSTAIN.DEVELOP
Oil Extraction					
Diamonds Mining					
Mnufacturing Industry	X	X	X		
Construction and Public Buildings	X		X		X
Electricity and water				X	
Agriculture, cattle breeding	X	X			
Social services (education, health and justice)		X		X	X
Commercial service(commerce, transport, bank and insurance)			X	X	

All the exercise produced may seem futile and dispensable knowing that the state – with all the inconvenience pointed by the Public Choice Theory on how the public decision makers take collective decisions – has been defining its priorities in different General Programs of the Government 2005-2006, 2007-2008 e 2009, approved by the National Assembly, the representative institution for people. In this way “*choices*”, based on clear criteria have only the value of a point of view.

As complement to the applied criteria should be considered the following:

- Budgetary and financial restriction which has to be respected for the sake of the macroeconomic stability and the tax paying capacity of the contributors<sup>60</sup>;
- The results of the studies “*ex-ante*” of public investment impact;
- The results of studies of economic and social evaluation of the public investment projects, in terms of social income tax and the Social Tax of Discount.

#### **5.4. - Agriculture and rural development**

The General Program of the Government for 2007/2008 has established as essential the following policies in agriculture:

- To create conditions to intensify the implementation of the program for rural development and extension as a way to improve the condition for farming production and rural trade and, consequently, to increase the production of essential alimentary goods;
- To define condition to support the emergency and development of business in agriculture sector;
- Intensify the implementation of production lines of the food “cluster” at the level of seeds and production and for industries in the agriculture sector, improving the country’s food security, intensifying the production of cereal, vegetables, meet, milk and eggs;
- To reinforce the rehabilitation program for the watered perimeters;
- On the ambit of the fertile lands’ management Project which represents a strategic reserve of the state, expressive projects on agriculture and cattle breeding and agro-industry in partnership with economic agents who are honest and technically and scientifically capable;
- To develop the forest development policy with the proposal of creating the needed conditions for a productive forest line.

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<sup>60</sup> The theory of public finance teaches that, although the state has the authority to impose taxes, there are political, economic and political limits which recommend not to go behind certain borders.

These measures seem to be generally adjusted to what is expected from the sector to be able to contribute for hunger and poverty eradication, to increase the GDP and the diversification of the Angolan economy. However, in practice the strategies for implementation of policies being used for decades are deflecting. For example the attention being given to business in agriculture and bio-fuel since 2007 are not advisable, showing clear a strategic option in prejudice to the family agriculture which has been the main responsible for food production. With effect, an important policy decision established for two years term, definition of supporting condition to emergency and development of a business in Agriculture is far from being accomplished. Still, worse is the fact that these measures are not clearly seen in program action from the Ministry of agriculture neither is part of the speeches from government officials in general and from the sector in particular. The CEIC understanding is already expressed in the 2007 report, the emergency and development of business in the sector of agriculture has to take into account not only the known classic entrepreneurs whom have among others, limitations in terms of management and experience in activities related to agriculture, but also agriculture at the family level who show entrepreneur spirit the way it is happening in some regions of the country.<sup>61</sup>

In the economic reports from 2006 and 2007, CEIC made a critic analysis on how the performance of the sector was presented, damaged by lack or insufficiency of credible statistics elements. The reasons behind the referred damage would be resumed to the lack of a structure for collecting systematically information on agriculture and its management and the definition of the number of families who are farmers – the main responsible for the cultivated area and production in agriculture sent to the market – which, considering the data from the electoral registration would be underestimated. This abnormal situation justifies, from the CEIC point of view, that the Ministry of Agriculture and Rural Development (MINADER), should organize a collecting system of information and a database able to overcome the statistic insufficiency.

The situation has changed positively in 2008. Firstly, was established and revealed a new methodology for collecting information based on inquiries to producers by samples, extensive to the whole country with a total of 2600 valid inquiries. The methodology is questionable and they were not implemented in proper condition but with no doubt it represented a clear progress. Secondly, as the base of the poll, was used information supplied by the electoral registration from 2007. This approach has allowed to calculate the number of rural families in 1,8 million, considerably inferior to calculation made by MINADER in 2006 (2,2 million) and 2007 (2,4 million)<sup>62</sup>. Yet, there

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<sup>61</sup> The debate on the duality in agriculture was discussed in the 2007 economic report. The fact of being invested 30 million of dollars in the Pungo-Andongo farm which calculated to produce after 3 years 15 thousand tons of maize in 2008, permits to think how interesting it should be to the result and the impact of a similar investment with maize producers in the North part of Huila province, for example.

<sup>62</sup> CEIC presented in the 2007 economic report, a estimation of 1,5 million which is much more closer to the numbers revealed now by calculation based on the electoral registration.

is no registration which allows a calculation on how many medium and high level companies in agriculture exist in the country. The information provided by REMPE is outdated, this is the reason why a new registration would make sense, however, may be it would be wise to gather information through a coordination between services connected to agriculture, land and finance.

A new methodology option generates another problem. Due to the methodology used and taking into account the reduced number of producers, the calculation of the production would represent a considerably low number compared to the previous years except if there were expressive increasement of productivity which seems not to have happened. So, the numbers presented by the sector are not very credible and it is natural that the index of unemployment is higher and the contribution of agriculture to the GDP is much more reduced. This is an aspect that CEIC will follow, with the objective of helping the government to find a proper solution to determine the production and employment in the sector of agriculture.

#### **5.4.1- The world food crisis and its effects in Angola**

2008 was not simply the year of financial and economic crisis. Abnormally low harvests in the USA and Europe in 2007, and prolonged drought in Australia were the first signs of a threatening with the effect of a snowball which would cause great social and political upheaval in tens of countries in Africa, Asia and Latin America due to the lack of products, lack of food and the unusual restrictions in the world food market. It was a real food crisis in a global scale. According to FAO the prices for food in the world has increased up to 80% in 2005 and 2008 and at the end of the year the number of starving people increased up to 200 million people.

There were many speculations about the real cause of this food crisis. Now, it seems that there is no doubt about the combination of responsibilities and factors that are not to blame on anyone. But:

- The policies suggested by the World Bank and the IMF, as they have recognized, through the fact of abandoning the agriculture of the developing countries;
- The policies from the rich countries which subvention their agriculture and introduce disturbance in the market and they do not accomplish their promises in helping the development, reduced to 8,4% in 2007 which represents in average 0,28% of their GDP, far beyond the 0,7% to which they promised in 1970;
- The climate irregularities which some scientist believe may become persistent due to the global warming;
- The vertiginous increasement of the fossil fuel prices;
- The spectacular increasing demand of the so called emerging countries due to the improvementt of the life condition of their cityzens;

- The effect of the bio-fuel on the American farmers (and other countries) which plant less wheat (and other cereals) or transfer the cereals and other food seeds to less fertile lands;
- And, finally, the speculation of the world stock markets which are present in those circumstance.

The crisis is also, a result of an agriculture model with a high level of energy consumption (directly or through fertilizer, pesticides and herbicides) which put a strong pressure on ecological factors vital to man such as land, water and climate. The remarkable increasing of productivity (eight times from 1950 to 1995, more than the previous nine thousand years) was possible thanks to enormous natural resources: cultivated land went from 265 million hectares to 1700 and 3,4 billions in 1995; millions of forests were destroyed, contributing the global warming. Today, tree times more water is taken from the rivers compared to 50 years ago and at the same time, 1,6 billion people lack this precious liquid which represents a threat to mankind. The world energy crisis showed the pernicious effect of the model. Equilibrium between the technologic progress which permits to satisfy the food need in a planetary scale and the sustainable use of the natural resources continue to be the greatest challenge for our generation.

The multilateral institutions and the governments from the rich countries see the problem of hunger and food from two perspectives: either commercial or philanthropic. This explains the starvation of hundreds of millions of people. In the present it is produced in average in the world 24% more food per person than 40 years ago and, theoretically, the amount of calories available has grown from 2.360 to 2.803; the productivity of cereal by hectare increased 150%. In the same period the world population duplicated. It is not because of the lack of food that starvation exists. It is a problem of access to food. While some do not eat, other waste. In regard to the issue of hunger and food, sooner or later mankind will have to move from the commercial and philanthropic perspective to the ethical. This is another great challenge nowadays.

More than any other sector, governments seek to protect its farmers and food production. This position enters into conflict with the idea of liberalization of world markets which debates are being currently realized, partly through the Round of Doha about multilateral negotiations related to commerce. The low level of production in agriculture and productivity force Angola to have very low indexes of competition compared to other sectors of the southern Africa region. This situation needs a prudent analysis to a possible adherence of Angola to free markets treaties, including at the level of our region, because it can constitute a strangulation to agriculture.

As a food exporter, Angola was also affected by the crisis. Two products illustrate the prices behaviour. A ton of maize was bought at the price of 180 (CIF) dollars; at the beginning of 2007 and at the end of 2008 the price in the internal market rose to 650-700 dollars with high demand. The ton of composed manure mostly used in Angola (12-24-12) in the same period of time went from CIF 425 dollars to 886 equally. However, the

tendency in 2009 is to reduce, in the case of maize, due to good world harvesting in 2008 and to prevision of higher national production.

#### **5.4.2- The evolution of the structure of Agriculture production and its supporting institutions**

After discussing the issue of family farmers, it is important to analyze the evolution of the called business agriculture in order to understand the production structure and the respective fitting and support institutions. The number of exploration in medium and large dimension has been growing slowly, now spread to more districts, which represents a growing interest in agriculture and cattle breeding. The number of employment in 2008 has increased to 15%, with the sector employing now 52205 workers, compared to 45131 employees in 2007. But the registration and legalization of companies still have low meaning. A study on those companies and its accomplishment of legal requirements such as registration and tax payment would make sense and would allow a realist evaluation of its capacity and its level of integration in the national economy and local economy. Except few of them which are growing including big foreign companies like Chiquita and some Brazilian companies, the majority of farmers and business people in agriculture are operating on half time, assigning the responsibility of their companies to contracted people, national or foreign, frequently with no adequate qualifications. The reduced number of projects in agriculture approved by ADB compared to the high number of requests reveals the lack of business and technical capacity of most business people, whose requests are not answered positively.

Although the number of private service providers is increasing, it is rare for farmers to acquire seeds and tools they need for work in the districts at the time they need it which is a condition to proceed. Still, the government has made an expressive distribution of inputs in agriculture (tools, fertilizers, machines, water pumps, mills and other equipments), mostly from the "*fundo perdido*" (hidden fund), an action which happened because of the election, in the opinion of some people. In 2008 the government distributed more than 23 thousand tons of fertilizers, compared to less than 18 thousand tons in 2007. Calculating importation from the private companies for use and sell it is possible that the consumption of manure was around 30 thousand tons, a bad indicator of the Angolan agriculture performance which, according to FAO, at this time should use around 400 thousand tons. Some companies have started the production and commerce of local seeds, which is extremely important in the road to stop importing in big scale, a non advisable procedure in technical and financial terms. The access to bank credits are still limited due to deficiency of the bank system concentrated in the capital cities and excessively demanding when it comes to financing the elementary needs of farmers due to the incapacity of the farmers in presenting trustable projects or simply their concrete needs in reasonable way. The lack of service providers in the area of counselling and assistance to small farmers living near by, in the districts is clearly visible and harmful which should constitute a preoccupation from the competent institutions. The way the cooperative of services are underestimated and the absence of updated legislation do not contribute to solving the problem at this level.



The mechanization of agriculture is a topic which requires reflection. It is unquestionable that the urgent need of increasing the work productivity requires the usage of mechanized operations. However, this problem can be solved only with importation of farm tractors; the mechanization of a country is not made without criteria. In the last years were acquired equipments in big quantity and great amount of money which can be used only for the next two years. It is proved that the state cannot assume this kind of service because from the financial perspective is negative and other benefits provided by the state are not known. The strategy of contracting private operators can be a solution although less audacious and needs to be followed systematically in terms of monitoring and evaluation, a practice which MINAGRI and other state's institutions did not start yet. Angola needs a gradual transformation policy of its agriculture, which requires the definition of a realistic policy of mechanization including the model or system which takes into account the current situation of the organization, the institutional capacities and human resources and able to preview the level of intensification, the type of equipments, the training of technicians and specialized workers and the use of modern strategic planning and management methods including monitoring and evaluation. The involvement of the private sector cannot be neglected.

A Project with FAO to reorganize the sector of agriculture has started during the year but there is not concrete results yet. The Brazilian cooperation is working to improve other aspects related to planning and management as well as investigation. The idealization and implementation of a monitoring system and global evaluation should be the concern of this Project.

The creation of the State Secretariat for Rural Development (SEDER) can help to invert the old tendency of limiting the problems of people living in the rural areas to agriculture. Nonetheless it is important to ponder on the content of the work and about the borders between this content and the ministries with systematic intervention in the rural areas. It will not be good, for example, to empty the Ministry of Agriculture of fundamental roles such as supporting the family production amongst other things.. Our reality suggests that SEDER should be mainly concerned with coordinating the intervention strategy and the implementation of program capacities directed to multiple actors involved in the referred intervention. Otherwise, the possibility of conflict emerging with other ministries will be high. On the other hand, the action of the Listening Councils and Social Agreement at the level of districts represents a great opportunity to prevent that problem from the rural areas are discussed locally and for the coordination of the sectoral intervention.

#### **5.4.3- The forestal, farming and cattle breeding production**

MINAGRI does not publish its estimates about the cultivated area during the 2007/2008 campaign. In 2006 there was an estimation of three million hectares cultivated by 2,2 million farmer families at the time which gives an average of 1,4 hectare per family. CEIC calculates that the cultivated area in 2007/2008 can be around 2 to 2,5 million hectares which gives an average of 1,1 to 1,4 hectares per family, a number which seems more realistic considering the farmers expectation, their physical capacity, which

determines a limitation of energy and inputs availability. This medium area will not increase without encouraging production provided by a commercial activity which transmits encouragement and technical progress in terms of mechanization because traditional work is strenuous and the energy capacity from the farmers to start new areas is low. On the other hand, to increase cultivated area of one hectare per family needs the devastation of a considerable area of forest. The reason why investigation has to find solution which allows sustainable increasing of production and productivity taking into account the difficult equilibrium between the economy and ecology.

The climate conditions under which the agriculture campaign was implemented in 2007/2008 were not favourable in almost the whole country due to a high irregularity of rain, either in terms of distribution along the year, or in terms of geographic distribution. In the first phase (September/October - January/February) there was a particular severe drought in the south provinces including Kwanza-Sul. The situation got worse due to phyto-sanitary problems such as the plague of invader lizards after pelting rains in the second phase (February to April/May) which affected mainly the provinces of Cunene, Huíla, Benguela e Namibe.

The production analysis is disturbed by the methodology changing already mentioned in the introduction of this chapter. For this reason the considerations have to be seen with reservation. According to MINAGRI the production evolution in the last years is the following:

**EVOLUTION OF FOOD PRODUCTION**  
(1.000 ton)

Product/Agriculture year	2005/2006	2006/2007	2007/2008
Maize	526	615	702
Massango	144	156	27
Rice	3	4	8
Bean	85	103	124
Peanut	64	66	91
Soya	-	7	7
Manioc	9037	9730	10057
Potato	350	491	401
Sweet potato	684	949	819
Vegetables	Nd	Nd	nd

**SOURCE:** MINADER – Balance Sectoral Report of Activities implemented during the year 2008

According to this data despite the increasing of maize, the reduction of massango production explain a slight reduction of cereal as a whole (5%). Doubts are put again to rice production which presented an increase of 82%, to which there is not explanation, with no evidence in the producing provinces of activities which justifies such increase<sup>63</sup>. As mentioned in the 2007 Economic Report there is no evidence, also, of the manioc production and productivity at the announced level. Right the opposite. CEIC has been following the situation in Malanje and confirms the considerations mentioned in the report about the issue. In Kuanza-Norte, there is information from the local authorities that the production is seriously being affected by phyto-sanitary problems. The responsables from MINAGRI defend their position with the argument of introducing new varieties, but even being true, the amplitude of adherence is not meaningful and this can be confirmed with field observation...

Another indicator of methodology changing in collecting of statistic information by MINAGRI is the representation of the productivity of culture in the exploration of business agriculture (BA) compared to the family agriculture (FA). It is a notable effort but still many things have to get better because the data from the business sector does not refer to all companies but those which provide information which allow us to conclude the number might be less in this sector. The analysis shows that for the eight products compared in 2008 only four reveal high productivity in the business exploration compared to the family productivity: maize, rice, bean and soybean. For the rest (potato, manioc, sweet potato and peanut) the productivity is equivalent or even higher in the family exploration. A preliminary conclusion indicates that the technical dependency of the family sector is not so evident. A profound study on the issue would be interesting in other to find out whether the difference of the productivity correspond to the inequality of resources to which each of the sectors has access to.

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<sup>63</sup> The issue of rice production had already been discussed in the 2007 report. Contacts held with the Agriculture officers in the rice producing provinces allow us to say that the 2008 productions, just as happened in the previous provinces are far behind those published by MINAGRI.

**PRODUCTIVITY in BA and FA  
(Ton/ha)**

Products	2006/2007			2007/2008		
	BA	FA	Average	BA	FA	Average
Maize	3,35	0,47	0,51	3,63	0,75	0,79
Massango	0,46	0,41	0,41	0	0,12	0,12
Massambala				0	0,09	0,09
Rice	0,96	0,47	0,51	1,18	0,47	0,51
Bean	0,5	0,3	0,3	0,55	0,33	0,33
Peanut	0,56	0,29	0,29	0,35	0,35	0,35
Soybean	1	0,6	0,66	1	0,6	0,82
Manioc	13,76	11,53	11,54	14,26	14,81	14,81
Potato	9,93	5,74	6,21	8,74	8,37	8,49
Sweet potato	7,3	5,88	5,89	6,23	6,54	6,54

SOURCE: MINADER

\*Pondered average by the relative participation of EAE e EAF

By collecting possible information from various private companies CEIC estimates that the production cost for maize in 2008 was around 2500,00 (to those with higher production ) to 5000,00 (to those with less production) dollars per ton produced in dry arable land regime. This number is relative due to the deficit and irregularities of rain in the most important region. Despite this, and taking into account the high level of inputs (mainly fertilizers) it is fair to conclude that, as affirmed in section 1.2 the increasing of the competition level in agriculture will depend from the expressive increment of work productivity. The same conclusion is made if the analysis is transferred to the family exploration.

The climate irregularities were not similar in the whole country. Greater difficulties were seen in Huíla and in Cunene and caused accented alimentary deficit. In the centre plateau the situation did not get better but did not get worse either, the deficit from the last year was the same. In other regions there was an improvement concerning food availability. Some indicators of this improvement can be seen in usage of more expensive construction materials for houses (zinc sheets), equipments such as motorbikes or generators for electricity by the more dynamic farmers. However, the agro-production would be notably much higher if the commercial circuits were functioning. The improvement in road using represents a powerful incentive for the production increasing. In this way according to MINAGRI Angola reduced the grain deficit from 700 thousand tons to 425 thousand tons, which indicates that there is still a long way to reach the self-sufficiency announced years ago to be met in 2007. The Ministry of agriculture continues

not to refer to fruit production when delivering statistic data which prevents to know the tendency of growth because the production of fruit constitutes an agro-activity which has been having greater performance since the end of the war.

The production of coffee reached about 7500 tons representing an increase of about 23% compared to last year which can be explained by higher motivation of the producers due to the increasement of price in the international market.

**EVOLUTION OF COFFEE PRODUCTION**

Product	2005/2006	2006/2007	2007/2008
Coffee (ton)	2500	5762	7500

**SOURCE:** MINAGRI, 2007 and 2008

The renewal of bovine, swine and caprine flocks that started years ago represents one of greatest gains of the agro sector. The initiative from small, medium and big producers as well as formal and informal traders added to some programs implemented by the government and NGOs are the responsible for the improvements verified. As said in the report of 2007, it is worth to think about the introduction of animal traction as fundament for a true policy for production, fomenting and fight against poverty which can, by the moment, meet the needs of family farmers who do not have solutions to their energy deficit. In relation to caprine breeding which is indicated by trade fairs in various cities, the registered progress should encourage the government to be brave in implementing simple measures which can solve handling and sanitary problems and improve production and productivity.

Confirming what as been said in the 2007 Report the creation of bovine flock has been gaining space. However the strategy used and adopted by the business community with high economic duty seems to be discussable. Importing the Brazilian bovine flock with high level of sophistication which, can reach up to 450 kilos after 15 months, can only be recommended when there are technical and management conditions, which permit to explore this potential. Otherwise the economic result can be a disaster. Those who have been able to create the referred condition are being successful with acceptable mortality rate around 10% to 15% although the economic and financial viability of the investment. The projects serve as reference for others and increase the value of their belonging region. In other cases in which conditions were not created the death rate of the imported animals is over 50%. In a single exploration in Kuanza-Sul over a thousand animals of *Nellore* type died just as example. It is not by chance that the most experienced business people (Huila, Namibe and Cunene) have been more wise in importing such animals but improving gradually the local type of animals for being more resistant. An autochthon animal of *Sanga* type which represents the core of the national

flock which are more than three million in number can take eight years to reach 450 kilos but for sure it resist better to diseases, insufficiency and management mistakes made by the less experienced businessmen. The lack of proper research programs and information prevents the entrepreneurs in taking well-founded decisions. MINAGRI should, at least, publish more information and help, based on relatively easy estimates, the breeder to make their options to increase their effective related to cattle. The installation of companies which would be assisting in zootechny, strategic planning and management than selling live flock, would be a healthier policy to be carried out by the government.

The production of milk is another curious example of inconsistency of our agro-policy. It is an activity which requires a high level of organization, therefore, it has to be treated with precaution. The government, not listening to the technician, decided to create an office for the milkmaid basin of Cela management and ordered a study on the viability of milk production. The study was put in the locker, milk making caws that were imported from Brazil have died all of them and the milkmaid basin is with no resources. The unique milk-producing with a certain expression is located in Aldeia Nova but does not present the praised results. The industry which was installed and the costs and quality were published was unable to transform the produced milk, therefore, it has made an agreement with another milk company for its transportation, transformation and trade in Luanda.

Some information to which CEIC has Access reveals some progress in aviculture production. The Aldeia Nova Project, for example, increased the production of six million eggs in 2007 to 22 millions in 2008. The production of chicken, on the contrary, is facing serious problems affecting the production and costs. A private company in Kuanza-Sul, for example, produced a chicken of 1,6-1,8 kilos in 42 days for a six dollar cost while the importation price CIF from Brazil is one and half dollar.

MINAGRI does not have or does not reveal updated information about the effective in cattle neither about animals which got vaccine. In relation to animal production, the estimatives are the following:

**EVOLUTION OF NATIONAL PRODUCTION OF  
MEAT, EGGS AND MILK**

Product/year	2006	2007	2008
Bovine (ton)	12204	13420	14498
Swine (ton)	22882	24026	24747
Caprine and Ovine (ton)	9153	9794	10284
Chicken (ton)	1058	1164	1257
Eggs (million unity)	6102	6712	7303
Milk (thousand litres)	1356	1424	1467

**SOURCE:** Institute for Veterinary Service (ISV)

\* Data from 2007 are estimative based on the results from the first semester

Similar to agro-production, the production indicators must be seen with care. In 2008 the Institute for Veterinary Service was reinforced in its technical and interventional capacity but the resources are still few compared to what has to be done, which reveals a deficiency in prioritizing the investment in the sector looking at the importance of bovine breeding is gaining and it represents an alert to the inconsistency of the strategy being followed.

The production of wood in 2008 had an increase of 15% compared to 2007 reaching a total of 57477 cubic meters of woodlogs while the production of coal is calculated in 320 thousand tons. There are no data for firewood extracting neither on tree replanting or plant production. The deforestation as a consequence of family agriculture despite its weak capacity can reach expressive extension. If we admit only for analyze purpose that the 1, 8 million of family agriculture has in average 0, 25 new hectares per year we would have around 450 thousand hectares less each year. If we add to it areas of destroyed forests for installation of new business exploration and if we take into account that each family uses around one cubic meter of firewood per year, according to the Institute for Forest Development, corresponds to more or less, two million of bio-mass per year only in firewood and that the replanting tree area are meaningless we will have an idea of how deficient is the perspective for sustainable management of forest resources

#### **EVOLUTION OF THE FORESTAL PRODUCTION**

<b>Products/year</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Woodlogs (m<sup>3</sup>)</b>	59872	50000	57477
<b>Coal (tons)</b>	Nd	310020	320.683
<b>Firewood (steres)</b>	Nd	35400	ND
<b>Honey (ton)</b>	Nd	34	ND
<b>Tree Replanting (ha)</b>	Nd	1200	ND

#### **5.4.4- Evolution of some of the current main programs**

The government has registered 26 agro-projects in the Public Investment Program in 2008 comprising the amount of more than 233 million dollars of which 50% (of the Project numbers) to use for the rehabilitation or implantation of irrigated perimeters. Furthermore, a considerable amount of the money is used to promote agro-business through construction and installation of infrastructures connected to agro-industry zones, acquisition of machinery and equipment, rehabilitation of family unities of coffee and the rehabilitation and equipping the Station for Agro-Development (EDAs). There are no detailed budgetary application information about such projects but its application level is

only 27,7% overall, which means difficulties in the reimbursement or deficiency in the implementation and management capacity, indicators which deserve reflection considering that they put in danger strategies followed by the government. To say that the country is in a hurry, for its development is exciting and galvanizing but it is important to consider the institutional and human resources debility.

*The Extension and Rural Development Program (PEDR).*

This program continued, as in the previous years, directed essentially in supplying agro *inputs* and according to the Institute for Agro-Development the number of families benefiting is around 800 thousand compared to 1,5 million families. Seeds, agro - instruments and fertilizers were the most supplied goods in the central plateau, as well as some equipment of intermediary technology. Despite the decision of stopping providing this kind of goods for free, there are no conditions for doing it. This continues to harm the market functioning, diverting EDAs from its main object which is to assist technically the farmers. In some province IDA is establishing agreements with Merchants and cooperatives and associations to resell *inputs* but there are no results yet, which allow the evaluation of this practice.

The insufficiency in human resources, finance and materials EDAs face despite some investment in rehabilitation of physical infrastructures, continues to make impossible an activity which is more acute concerning technical assistance and organizing support to the rural communities. The rural extension experience based on schools in the farmers field approach (ECAs) in Huambo and Bié and, also, the program of institutional reinforcement being developed in Huila and Benguela with the European Commission support has not been profoundly analyzed and used to improve EDAs' performance.

Despite the improvement verified, the coordination and articulation between PEDR and other programs financed by IDA, provincial government, multilateral agencies as well as the European Union, World Bank, FIDA and FAO and some NGOs is still weak.

*Aldeia Nova*

Critic reflection made in the 2007 Report about this Project are, in general, still up to date despite some improvements, with effect, egg production (already mentioned) and milk (from 583 thousand litres in 2007 to 938 thousand in 2008) has improved notably and constitute the main reference of the Project. But this cannot hide the failure in other areas, mainly, in maize production and, above all, in the relation analysis between cost and benefit. The philosophy of the project as said before is discussable because it does not provide the participation of the involved businessmen in decisions about what to



produce and the destiny of the production. The lack of monitoring and a less independent evaluation system prevents a sustainable analysis of the project's impact.

Despite those realities, the government has decided to start new actions in Cela/Waku Kungu district without consistent viability studies made. It is the case of the sugar cane plantation in, almost, 44 thousand hectares to be started in 2009 (Procana). Beside this, the project will be expanded to ten other provinces (Bengo, Benguela, Bié, Cabinda, Huambo, Lunda-Norte, Malanje, Moxico, Uíje and Zaire) to support less than five thousand farmers with an investment calculated to more than 400 million dollars, similar amount for annual investment announced for the whole agro-sector during a period of 2009-2013.

#### ***Irrigated Perimeters***

In the biennial government program for 2007/2008 was planned the installation and conclusion of various Projects for watering with an amount of Money registered in General State Budget for 2008 without mentioning the Capanda zone, with an amount of 85 million dollars (almost 37% of the GDP): Caxito, Ganjelas (Huíla), Missombo (Kundo-Kubango), Quiminha (Bengo), Calueque (Cunene), Caála/Bom Jesus, Matumbo (Cela/Waku Kungu), Luena, Humpata, Bitá/Kikuxi/Benfica, Matala, Kapuepua (Lunda-Sul), among others.

Despite some improvements registered in some projects, the reached results cannot meet the expected results yet. Debility in management and the lack of discipline required by an irrigated perimeter were not resolved yet. Other identified constraints are not being solved yet such as the soil fertility and the technical knowledge for its improvement, technical support particularly for plants protection against plagues and sicknesses, management, utilization, conservation and repair of agro-machinery and other equipment, and, above all, technical and management capacity of farmers. This is a situation which requires reflection because the costs are too high. The serious problem of management registered by SOPIR, a public company related to irrigated perimeters can be a symptom of severe problem.

#### ***Agro-industry zone of Capanda and Pungo-Andongo Farm***

The government of Angola has invested in terms of strategy for development of agriculture which is made through its fast modernization. This explains the ambitious goals for the present legislation in terms of cultivated areas and production. Within this perspective the government created the agro industry zone of Capanda in 2006 and in the GSB for 2008 were allocated 30 million dollars which represents more than 13% of GDP of agriculture. Beside the agro and industry production it is expected that the zone is used as a model for other which will be created in the country. It is a strategy apparently attractive but does not take into account organizational, institutional and human limitation. Once more, attention is required for profound studies on the projects and its implementation.

Other experiences tried in similar situation did not have good results. The Brazilian model for agro-business is the main reference nowadays, but cannot be implemented in Angola without any evaluation about the differences between the two countries. Beside all the others, the fact that in Angola research is almost inexistent should not be ignored while agriculture in Brazil has a support of an institution with world reference – EMBRAPA. The importance of the investment and the money in it stimulates CEIC to recommend the Government to hire independent companies to monitor and evaluate this process.

The Pungo-Andongo farm, the first Project within the Agro-Industry zone of Capanda to which the GSB has allocated considerable resources as referred to in the 2007 Economic Report has entered into its crucial existence. Started equally in 2006, it is a public investment with the objective of producing food, training professionals and technical development in an area of 33 thousand hectares with an investment of 30 million dollars. For this farm was established a management contract and partnership on technology with a Brazilian company for three years. The maize production reached in 2007 and 2008 represents a technologic progression but the available data show that the cost for production is still too high and only an enormous effort to reduce the cost and increase the productivity can make the Project a sustainable one from the financial point of view, an essential condition for the project to be retaken by the private sector. The environmental sustainability is raised again because of disrespect of the technical requirements about deforestation which affects the soil, water lines and the bio-diversity. On the other hand, the undeniable gains are not being followed by competent institutions of MINAGRI. The experimental station of the Agro Research Institute in Malanje, for example, does not have any working protocol with the farm, which allows the Institute to know what is being done with the introduction of new hybrid, with experience about the sowing season and with the productivity prize for the employees.

In 2008 was started the first step to install the second Project of the zone. The Angolan Bio-Fuel Company with association of Sonangol and another Angolan company (Damer) and Odebrecht was constituted to plant sugar cane at the starting phase for sugar production and afterward for ethanol production.

#### *Cotton production in Kwanza-Sul*

The government has approved the implementation of a Project to restart the production of cotton along the coast in Kwanza-Sul which, similar to the Agro-Industry zone of Capanda – Malanje is intend to be a public and private partnership being the private investment under a South Korean company's responsibility. In the 2007 GSB was allocated the sum of 16,8 million of dollars for the effect and in 2008, 22 million more but the previous execution progress is not known. This government decision corresponds to another which includes cotton as one of the three lines as priority together with the maize and bean for financing in the agriculture domain. During 2008 were implemented only actions related to infrastructures, mainly roads. Doubts concerning the utility and opportunity of this public investment are still there as referred in the previous

report. Meanwhile, some private entrepreneurs have started diligence to implement the of cotton production project in Bengo (with China's partnership) and in Kuanza-Sul (with the Spanish partnership)..

#### **5.4.5- Training and Research**

The government strategy to stimulate the agro-business and the modernization of the family agriculture has to be supported by research and human resources. The expectation generated last year with the attribution of a little more human and financial resources and the direct responsibility of the Deputy Minister for Research, were not satisfied yet. Research for the rehabilitation of infrastructures and equipping in Chianga, the head office of the Agro-Research Institute (IIA) which contributes to the progress of some national experiments and international adaptation, comparison and evaluation of the main species. The Veterinary Research Institute is implementing different lines of research such as animal improvement, characterization of local race, animal traction, diagnosis and study of animal sicknesses among others. The specialization of some experimental station was defined as being an object of praise. The fact of attributing the responsibility of experimenting small species to the Malanje station indicates more attention to this productive line.

But, this progress are not seen in practice. It seems that the research and production is not combined. For example, IIA and IIV do not do any follow up to two of the most important projects being implemented in Malanje concerning innovation, one agro (Pungo-Andongo Farm) and the other cattle (Agro-trade). The starting of the activities in the Experimental Centre of Malanje created to work with roots and tubercle has constant and incomprehensive advance due to the lack of solution to problems such as energy supply and other unknown reasons. What is sure is that the imported reagent for the laboratories expired and the technicians trained in Brazil are de-motivated or abandon Malanje due to the lack of housing conditions. The negotiations with EMBRAPA in order to establish partnership with the objective of reorganizing the research system is taking so long time without visible progress, urgent to support what is expected by the government from the agro sector. From the 26 projects registered in the agriculture GDP only one (Rehabilitation of the Zootechny of Humpata) is directly related to research. Meanwhile, the resources to acquire equipment are not enough to execute the research work. Despite some training effort the number of people educated is inadequate to face the challenges of a modern research and the salary and the working conditions are not attractive enough to maintain and improve the situation.

The training of university students for the agro-sector has not been taken into consideration required by the sector. The measures taken to reactivate the Faculty of Agro Science are very timid compared to the challenge to be faced by the sector. There is only one private institution for Agro-science teaching in Lubando.

After the inauguration of the Secondary School for Agro-science in Malanje in 2008, four other with the same objective started in the rural area of (Andulo, Wako-Kungo, Ndalatando and Huambo) which is a good aspect to connect youth to the agro -

activity. However, the concern related to the profile of the technicians and the course curriculum of the school remains, because they seem not to meet the challenge. Beside the technicians in agriculture, cattle and hydraulic sectors need managers for agro and cattle companies, farms and machinery but also specialized workers as mechanics, machinery operators, locksmiths, lathe operators and other who are capable of facing the challenge of a modern agriculture.

#### **5.4.6- Financing the agrarian sector**

In 2008 the GSB (General State Budget) has allocated a correspondent to 522 million of dollars (1,6%) less than in 2007 when the amount was around 650 million (1,9%). As a reminder there is an agreement among the SADC countries of adopting annually 10% of their GSB for agriculture. In this amount are included expenses with personnel (9%) goods and services (29%) and the money for the agro GDP. The Aldeia Nova Project is not included with an amount of 41 million of dollars, 8% of the total amount of the agro-sector.

According to the few information available about the implementation of the GSB, only 48% of the allocated budget was applied which in practice represents 86% for the personnel, 80% for goods and service and 28% for GDP.

The GSB analysis does not permit to identify the Money for PEDR, the most important for the direct family sector assistance. Only 26 projects of GDP are directly related with the family production: equipment for five EDAs and training of extensionists (29 million dollars, 12,5%), activity related to coffee (11 millions, 4,7%), small irrigation in Huambo (1,5 millions, 0,6%) and water and transhumance of flock (160 thousand, 0,06%). This numbers show very well how different the family sector is being dealt from which the production represents more than 93% of the total according to MINAGRI. On the other hand the projects from each province represent a meaningless percentage of GDP which reveals that the power of the province in terms of budget is almost inexistent and in this way they simply implement what is centrally decided. Beside this, the same projects are not conceived to represent program of the province which can meet the political objective established.

The financing for the agro-sector are five:

(i) The General State Budget (GSB), including the Public Investment Program with recourse to the treasure funds, the bilateral loan line with commercial character, mainly, from the People Republic of China and to loans from institutions such as the World Bank, FIDA and a group of business people from Israel;

(ii) Financing from the “*fundo perdido*” (hidden fund) from big donors like the European Commission and Japan among others;

(iii) Bank Credits;

(iv) Micro credit for small actions by commercial banks, NGOs and funds managed by community organizations;

(v) Private investment with own funds.

The concession of credit by the commercial banks has increased compared to 2007 thanks to some measures taken by some banks which have created structures to deal with credit in the agro-sector and have revised the interest rate. But the results achieved are still meaningless if compared to other sectors being the Access objected by the weak density of bank network in the districts and the low level of preparation and perspective from the entrepreneurs.

Up to the middle of the year BDA has approved only 39 projects with the amount of six million dollars. In order to improve the situation BDA is equating the possibility to include the manioc production network and cattle beside maize, bean and cotton and has signed financial convention with various commercial banks which allow them to analyze projects with an amount of less than five million dollars. The micro credit program via bank, NGOs is increasing covering only small cooperative, association, community groups and the support given by BP is an example to consider due to its impact in meeting the need of the poor in the rural areas.

This reality indicates that the government must find creative and innovative solutions, accessible to the Angolan farmers which contemplate the guarantee issue, a condition to change the current situation to progress. One of the solutions would be the creation of mutual credit line which would have the advantage of being more flexible than the commercial banks and closer to the farmers. It requires a revision of the current cooperative legislation.

#### **5.4.7- Bio-Fuels**

“When the theoretical production does not exist or enters into rupture, the most indicated way might be the return to the empiric evidence, be it for the assumption enrichment or for a new theoretical principle constitution”. This quotation from the Mozambican José Negrão mentioned in the 2007 Report concerning the bio-fuel issue is still up-to-date and helps its analysis. Still based in Negrão, the Report refers that “the inevitable extinction of traditional farmers through the agro modernization which implicates their transformation to rural worker is an illusion because the demography growth rate tends to keep high but the employment opportunities in sectors like industry, service and agro-companies is not increasing; (...) on the other hand, the cost in human, finance, energy resources and the social and environmental consequence required and caused by an option to a modern agriculture are not bearable to the country. The most important is to analyse the reasons for the slow progress of agriculture as a whole, taking into account the existing agro-structures to invest in the human resource capacity and the

production supporting institutions (including research, technical support and, as the first priority, credit and the transport and commercialization network) ”.

The Government of Angola decided to invest in bio-fuel production from the sugar (ethanol) with the argument of being a renewable energy and “clean”. This position is defined by politicians and scientists, including Brazilian, accusing the oil companies of being the main detractors of ethanol. But other scientists with recognized authority, among them the Noble Paul Krugman oppose to it. In an article published in the “The New York Times” and transcript in the “Jornal de Angola” of 12th May, 2008 the eminent economist affirms that the idea of converting agro-products to fuel to promote the energy independence and help to prevent global warming is “a trick” and adds that even the apparent “good” fuel such as ethanol in Brazil accelerates the global warming because they demand deforestation. Today everyone agrees that there is conflict between agriculture, food, bio-energy and environment.

Before this contradicting opinion CEIC thinks that it is precipitated the governmental decision to support and stimulate projects on agro fuel as some sectors prefer to nominate. Even in Angola, opinions are separated. It is not normal that technicians from the Ministry of Agriculture and journalists from the governmental stations manifest and publish their divergence toward an official position as they have been doing. An academic from the prestigious Chr. Michelsen Institute from Norway said in 2008 in the Catholic University of Angola that, according to his calculation, the cost of a bio fuel barrel would cost around 120 dollars in Angola which makes the production infeasible unless that the oil price comes to the level of July 2008 which seems not to happen. This opinion can be discussable but should be taken into account. The competition between the bio-fuel and food will be reflected on land and other resources, human, institutional and financial. Using the thoughts from Professor Francisco Avillez from the Lisbon Higher Institute of Agronomy and from the Agrogas company<sup>64</sup> it is true that there is no limit to the arable land in Angola in short term but there will be definitely conflicts between the different alternative usage of soil because most of these soils will correspond to richer areas in bio diversity or with stocks of carbon more or less high. Despite the taken decision, the question must deserve more studies and debate in Angola before the damages become irreversible.

#### **5.4.8- Poverty and Rural Development**

The government has started the Rural Development Program and Combat against Poverty with a multisectorial and integrated character with the aim of improving the living condition of the rural families by harmonizing and integrating the development of rural communities in the province and national program for economic and social development. The program was coordinated by MINADER up to the creation of SEDER but did not have any relevant action in terms of implementation. The main concrete

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<sup>64</sup> Meeting Luso - Angolan, Évora, October 2008.

action present is the identification and construction of the named “rural villages” in which, after a diagnosis, it is intended to implement some service. The place where the village will be implemented is defined by the provincial government and it has been a preoccupation to place them where people have difficulties, for example, due to the frequent flood. In the first phase is planned to work in Bengo, Bié, Cabinda, Cunene, Huambo, Huíla, Kuanza-Norte, Luanda and Uíje. The budget is around eight million dollars.

The starting of the 21st century bring some evidence which allow new thinking ways of combat against poverty and about development and at the same time it is clear that Job creation is limited due to the “slimming” of the State and due to various constraints to the economic growth in poor countries such as debility in the entrepreneurship sector and institution and the lack of qualified human resources among other. Despite this, these countries face ecological issues and the evident collapse of the energy paradigm which supported the growth model which is being doubted in Angola. The food crisis was an indicator of the new evidence to which has to be associated the crisis of fossil fuel. Therefore, the new century requires a new definition of poverty to new strategies to fight against it.

The Noble Prize in economy Amartya Sen, from India, and the Brazilian Senator and former Ministry of Education, Cristovam Buarque have been producing new reflection about poverty. Both defend that poverty should not be evaluated at the level of family income as made by the World Bank but at the level of access to goods and services. This perspective is very interesting and should be developed. Buarque understands that poverty should be liberated from economy and become a question of ethic, not determined by a horizontal line under which people should be considered poor but by a vertical line which separates those who have access to goods and services from those who do not have. Poverty should not be a defined status in terms of demand and income but need, access and right. It is in this perspective that rural poverty should be seen and its combat in the perspective of development.

## **6.- NATIONAL EXPENDITURE**

The analysis of the Angolan economy from the perspective of final expenses in goods and services confirms some notes made in previous chapters, basically those related to general level of activity and the behaviour of the real economy sector.<sup>65</sup>.

With effect – even in a situation of debility of the national statistics base and in the lack of feasibility of the known statistics – alteration signs related to the influence of the different factors of growth are seen within the consumption triangle private-investment-exportation.

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<sup>65</sup> A good approach to national expenditure is tributary, however, in the existence of a strong system of national accounting, still in the stage of organization in Angola. Therefore, the incorporated considerations to follow are based in estimates – some meaningless—debatable in themselves and in the intricacies involved in the calculations. Even the values related to the basic macroeconomic principle – the Gross Domestic Product – are not trustworthy, even when they are provided by the estimates made by the IMF “*staff*”.

The most evident fact in 2008 is related to the slow growth rhythm of the nominal private consumption from which derived a break in its relative duty in the GDP. The medium rhythm of annual variation between 2002 and 2008 was 32,1% in nominal terms confirming in this way the emptying effect of the economic growth. However, should not be forgotten that this high growth derives from the consumption duty of the families with high income. The private medium consumption per inhabitant increased from 171,5 dollars in 2000 to 1078,9 dollars in 2008 in nominal terms. The imports growth of final consumption goods in the same period – around 30% in annual average between 2002 and 2008 – helps to understand the motive of such dynamics. This notable progress makes more plausible the CEIC calculation in relation to the reduction of the poverty rate in 2008 – in the scenario considered in the 1.4 paragraph – although the non-determination about the concentration degree of rich and income continue to justify a reserved opinion about the evolution of private consumption per inhabitant as manifested in the paragraph in which this social phenomena was discussed.

Another aspect of reference is the maintenance of the relative public consumption weight in the amount of wealth created by the national economy. Paul Collier<sup>66</sup> defends that one of the prosperity signs of a society resides in the returning to the economy and to economic agents what is essential from the income. This is the reason why should be verified a tendency of increasing the value of the private components of GDP – consumption, investment and exportation – in prejudice of the public variable such as the government consumption and State investment. The total public expenses represented in 2008, 35,2% of GDP, two point in percentage less than the tendency calculated for the period from 2002/2008 in which was 37,5%. In average, the state has spent 782 dollars per inhabitant in 2008 against 248 dollars per inhabitant in 2000. To some extent this evolution of the public consumption per capita is justified by the expenses in education and health which the state has been providing to the population.<sup>67</sup> Between 2002 and 2008 the expenses from the government in personnel and functioning has grown to an annual average rate of 21,1% in current price, one of the lowest among the components of the national expenses. Even though it is still high and there are three reasons for the effect: first, the increased number of civil servant to meet in a better manner the need derived for the extension of the State's Administration and to the increase of social and economic service provided to the population (namely the increase of the school attendance in the primary school – with an expressive reduction in number of students outside of the school system – and the improvement of the primary health care) and the salary increase for the state's employees (soldiers, paramilitary and civilians ) and finally the increment of the functioning expenses related to the first of the two previous situations.

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<sup>66</sup> Collier, Paul – Angola: Options for Prosperity, May 2006. A presentation in a Conference on the management of oil fiscal revenues in Angola, a joint initiative of the Ministry of Finance and the World Bank.

<sup>67</sup> Remind that in paragraph 1.4.1. the estimates was 506 dollars the social public expenditure for each citizen in 2008.



The public investment, thanks to 11,9 billion dollars used in 2008 (according to the Balance Report of the General Government Program of 2008 and the Budgetary Execution for the same year) has been confirming its important role of stimulating the economic growth of the country suitable to its need of infrastructure and the combat against poverty. Between 2002 and 2008 the State's investment expensed have increased to an annual average rate of almost 83% higher than the private consumption (32,1%) and public consumption (21,1%). The public investment per inhabitant rose from 21 dollars in 2000 to 665,3 dollars in 2008.

But most important than the systematic growth of the public investment is the quality of infrastructures allocated for the national economy by the state. The improvement of the general economic productivity depends from effective physical infrastructures, human and environmental with efficient results which, obviously is related to the quality of the public investment<sup>68</sup>.

The management of the state's investment is another area with enormous impact on the economy in two concrete aspects: to seek better connection to the private sector and to the social components of the economy and its implementation guaranteeing transparency in the allocation of public money and strictness in accomplishing the specifications<sup>69</sup>.

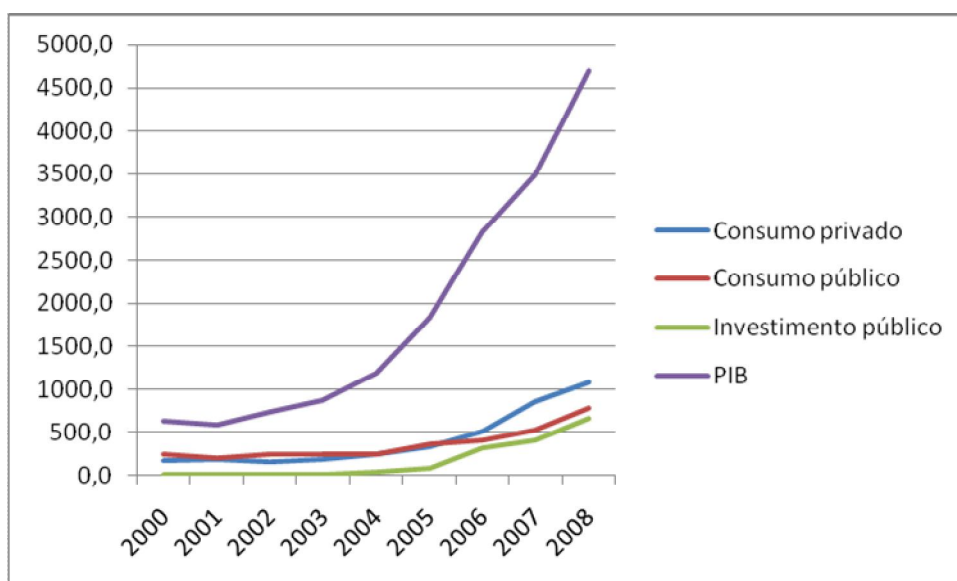
The following graphic shows the different dynamics of the GDP growth capacity, of private consumption, public consumption and public investment. The influence of the perverse transference outside the country as interest bonds, bonus, profit, salaries to expatriated personnel when the private consumption compared to GDP is perceived.

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<sup>68</sup> There is much social criticism and techniques regarding many of the public works in construction or rehabilitation all over the country. Neither the time of implementation, nor their characteristics seem to correspond to the high amounts paid, in the process of payment or to be paid. His Excellency, the President of the Republic, in a meeting of the council of Ministers, of May 2009, raised his great concern about the huge amounts of public money been spent apparently without any control by the Ministries.

<sup>69</sup> Another issue of great relevance in regard to public investments – and already informer Reports – is related to the criteria of project selection. In order to reduce the area of party and politics, it is important to realize a rigorous assessment of the sectorial and provincial proposals, choosing those of highest probability of rentability. Certainly the problems of fiscalization of the works are also another aspect of great concern, in order for the Mathematical hope of an average duration of the infrastructure respects the established international standards.

#### EVOLUTION PER INHABITANT IN CURRENT DOLLARS



SOURCE: CEIC, Macroeconomics Team.

The representative values of the national expenses aggregation are found in the table below.

#### COMPONENTS OF NATIONAL EXPENDITURE

(Values in current million dollars)

VARIABLES	2003	2004	2005	2006	2007	2008
Gross Domestic Product	13513151,3	19006075,0	30271482,6	47937085,7	60638234,4	83902400,0
Exports of goods and services	9401294,1	13798543,2	24286232,2	33346504,1	39857700,4	65566243,3
Imports of goods and services	8801300,0	10634800,0	15144231,0	16288853,1	24513424,4	47629341,3
Public investments	281262,9	868420,4	1531446,8	5403010,4	7146106,2	11901333,3
Oil investment	5179800,0	6500900,0	7273400,0	9058600,0	12859504,3	18984673,1
Non oil Investment	597370,4	657107,4	722818,2	795100,0	1192650,0	1788975,0
Total of private investment	5777170,4	7158007,4	7996218,2	9853700,0	14052154,3	20773648,1
Total of Investment	6058433,3	8026427,8	9527665,0	15256710,4	21198260,5	32674981,4
Public Consumption	3900546,6	3914189,8	6088140,6	6866637,6	9252330,9	13989410,7
Private Consumption	2954177,3	3901714,1	5513675,8	8756086,7	14843367,0	19301105,9

SOURCES: National account, MINPLAN; Statistic of the Payment Balance, BNA. Budgetary Implementation 2008, MINFIN. Balance of the Government General Program, 2005, 2006, 2007 and 2008. Estimates of the CEIC Macroeconomics Team.

The exports and imports are the two most regular variables of the national economic panorama. The first responds to the international demand of oil and diamond while imports represents one of the fundamental components of the internal supply of goods and services and one of the macroeconomic variables which has been sustaining the economic growth.

The exports of goods and services presented a decay of the annual medium variation of 38,4% between 2002 and 2008 mainly influenced by the increment of the oil production and its demand in the international market. The first decade of the 21<sup>st</sup> century has been prodigal in extraordinary gains in the oil expenses of the producers which has been originating perverse effect on other important components of its economic growth and the recovery of the minimum social equilibrium, mainly in post conflict situation where the panorama is of high exclusion and marginalization of big groups of population.

The imports were arrested by the exports (increase of the importing capacity amplified by the appreciation of kwanza) and by the global economic growth<sup>70</sup>. The respective cadence of average annual variation was 32,4%, between 2002 and 2008, even though, still lower than exports. When the analysis time is shorten to 2004/2007 (incidence of peace) it is verified that the imports dynamic change moving to an annual rate in average of more than 40,2%. The appreciation of Kwanza making cheaper the imports coming from zone of dollar influence stimulated them, increasing the internal competition in the presence of a national production still unable to respond to the challenge of substituting those of current consumption and more or less durable. To this accented growth contributed the review of the customs tariff in 2005 and the subsequent adjustments which liberated some tariff position aiming to reduce the fiscal evasion and to control better the price for the final consumption goods.

The private oil investment continued in high position being the greatest driving-force of the national economy. In average within the period of 2002-2008 the oil companies (national and multinational) responded for 88,7% of the total investment in Angola. This kind of investment together with the mineral exports has been an excellent factor of the Angolan economy growth. It is another sign to prove the high dependency of the Enclave sectors from which results a high level of openness without structural consequence on the increasing of other sectors of the national economy. The unavailability of this multinational in draining the resources in foreign currency acquired with exportation of Angolan oil to the national financial system marks the lack of interest in helping to restructure the Angolan economy.<sup>71</sup>

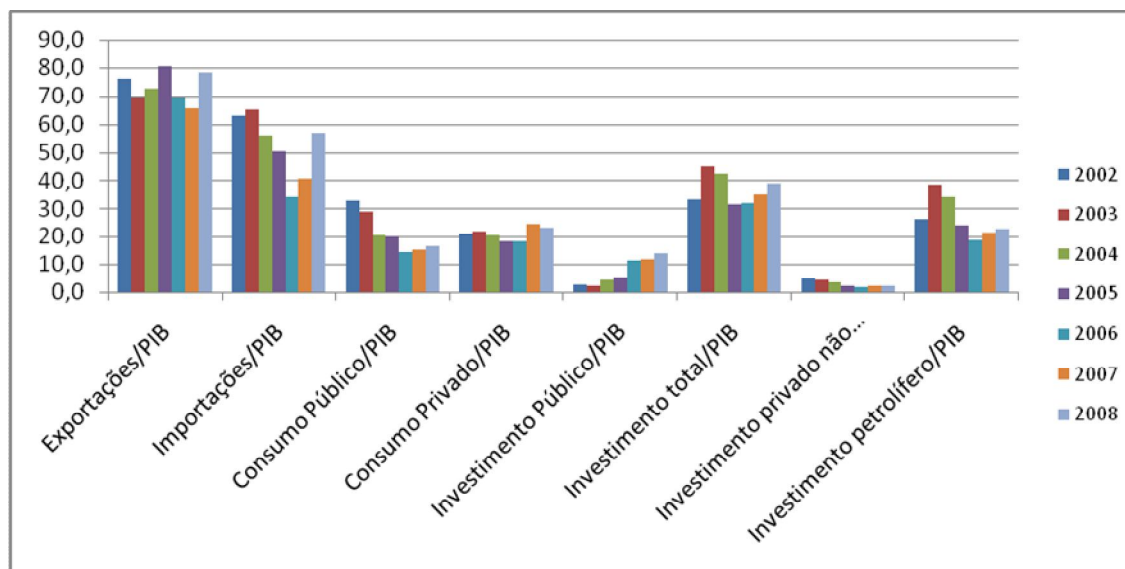
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<sup>70</sup> The imports made directly by the oil sector represented in average 30,2% of the total imports in the period 2000-2007.

<sup>71</sup> According to updated information this dossier went back to the negotiable table in a moment that the power for enlargement and modernization of the national finance, reason for not allocating the export income of mineral resource to the Angolan Bank network. In the same sense, can be elements of pressure on the foreign oil companies to the slight lack of liquidity in foreign currency in the national financial

## INDICATORS OF THE NATIONAL EXPENDITURE

(Value in %)



SOURCE: CEIC, Macroeconomics Team.

The ratio which measures the weight of the public and administrative sector in the economy shows a clear tendency of decrease even though a more concluding affirmation had to admit the existence of extra budget expenses which cannot be completely secured. The value of the ratio in 2008 (16,7%) represents an increase compared to (1,4 percent) which can be in one hand, explained by the weakness of productivity gain of the public administration.

But the relationship between the state's activity and the economy can, also, be evaluated by the ratio of total public expenses (with investment and interests of the internal and external public debt)/GDP. From this point of view the value were of 35,7% in 2004, 32,2% in 2005, 32,3% in 2006, 34,4% in 2007 and 35,2% in 2008, equivalent to the total lack of increment (2004/2007) of 0,5 percent. They are still high ratios not only "*de per se*", as compared with other economies, mainly, of our SADC neighbours. However, it has to be registered that the government has been committed in improving the performance of public account and make its results more transparent. This recognition has been part of the international institutions reports such as the IMF, World Bank and OCED.

The indicators with external commerce variable as numerator confirm that the Angolan economy is one of the most open in the world in which the economic relation

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system in a moment of expressive break of the international liquid reserve of the county. It is time this issue was treated according to the international standard of regulation and functioning of the banks system.

with other countries corresponded to an average value during 2002-2008 of 125,3% of the GDP. No surprise considering the supremacy of oil and diamond in the economic structure of the country (production and exports). The excess of representativeness of exports has two edges: if the international demand and the price are high, the internal reflex will be positive, but on the contrary, the crisis is installed. It is, there for, an undesirable situation in which the decision centres are place outside the country, out of the national economic policy control. Undesirable, mainly, because exports concentrates (97,8%) in only two products subjecting this standard of commerce to uncertainties and risks of the world market.

It should be, in the same way, stressed the high dependence on imports – in average around 52,2% in seven years – as consequence of the macroeconomic policies which a strong kwanza, stimulate the replacement of internal production with imports.

One final note about the private consumption ratio: The tendency of increasing of its participation in GDP derives from its higher intensity of growth during the referred period.

In summary:

- The economic stabilization and budgetary consolidation is well documented by the value of the respective ratio;
- Since 2004 that the Angolan economy became an economy of investment although exports did not loose, expressively, its weight in the GDP; the average combined ratio ( total exports net+investment)/GDP was in 2008 of 58,5%
- Between 2004 and 2008 the real factors of economic growth were investment and oil exports;
- The private consumption starts emerging, also, as a strong candidate to important factor in the economic growth account; however, for the future, its influence on the economic growth will depend on the poverty reduction rate, increase of working income and in a change of the current mechanism of income and wealth distribution;
- The imports of goods and services continue keeping a strong participation in the GDP, due, mainly, to the service component.

In terms of contribution to the economic growth between 2002 and 2008 the following table has the most relevant information.

## CONTRIBUTION TO THE GROWTH

(Values in percentage)

VARIABLES	2003	2004	2005	2006	2007	2008
Private consumption	5,7	6,6	7,5	10,7	17,0	6,9
Public Consumption	8,3	4,2	4,0	2,1	2,3	2,8
Total Exports	7,1	34,0	61,0	26,0	12,8	50,4
Total Investment	27,7	13,7	5,9	19,1	13,6	21,1
Total Imports	-15,8	-11,7	-21,2	-2,6	-20,4	-53,5
Gross Domestic Product	33,0	46,8	57,2	55,3	25,4	27,6

## 7.- PAYMENT BALANCE

### 7.1- Introduction

Similar to what happened in 2007, at the time of writing this report the final data of the Payment Balance of Angola for 2008 were not completely available, the reason why the analysis will be based on estimates. Because of this fact we warn the reader for the fact that the data presented here may change or may be corrected in the future.

On the other side, and because there are some doubts we would like to say that, due to changes in method established at the 5th edition of methodology of the Payment Balance, of the International Monetary Fund, the presentation structure, the composition as well as the designation of some items of the payment balance were changed.

The Payment Balance reflects a series of economic and financial transaction made by one country with the rest of the world in a certain period generally one year in this case the data being analysed reflects the transactions made by Angola with the rest of the world during 2008.

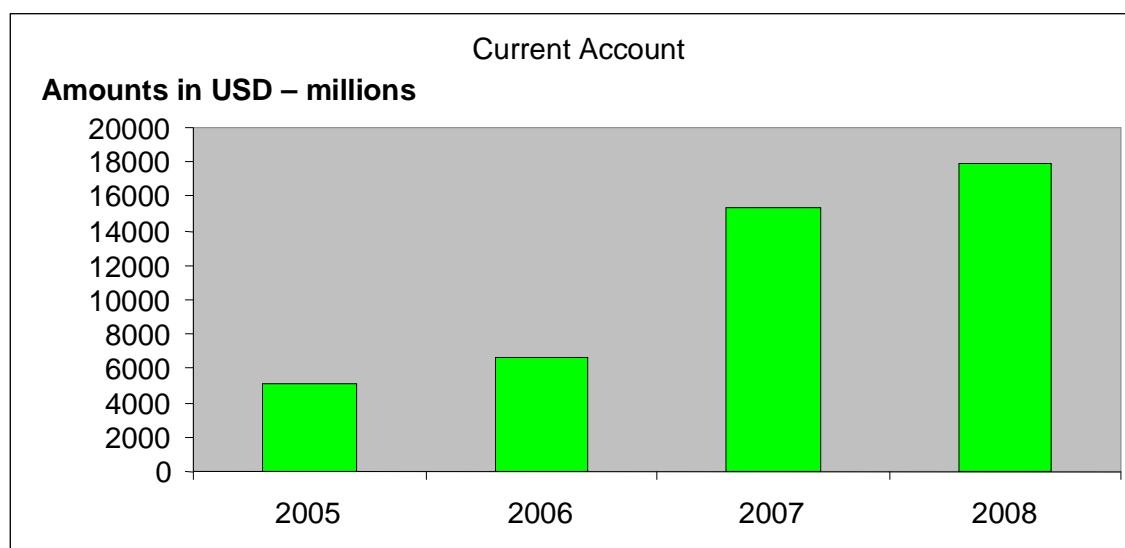
The increasing of crude oil in the international market, similar to what have been happening in the last years particularly in respect to the increase of international liquid reserve and to the reduction of delay of the external debt.

It is calculated that in 2008 similar to what happened last year one more superavit in the global surplus of the payment balance of **US\$ 5.799,5 millions** due to the positive effects considered above.

### 7.2.- Current account

It is calculated a superavit of 17.936,9 millions for the period on study for the Current Account representing in this way an increase of 16,9 % compared to last year

superavit of 15.343,3 million dollars. This *superavit* will represent about 20,9% of Gross Domestic Product.



The graphic above shows us the positive behaviour of the current debt of the payment balance since 2005 in which is highlighted the *superavit* observed in 2007 and 2008 explained, mainly because of the increase of the oil price in the international market and by the increase of oil production.

To improve the Current account of the Payment Balance in 2008 there was a positive contribution of the supersaver of debt in goods (Former Commercial Balance) despite of worsening the debt for Service, Income and Transference as normally happen and similar to what happened in previous years due to the structural characteristic of the Angolan Economy, strong in importing services and exporting capitals such as interest paid in external debt, profit and bonus of direct investment companies transferred particularly in the oil sector.

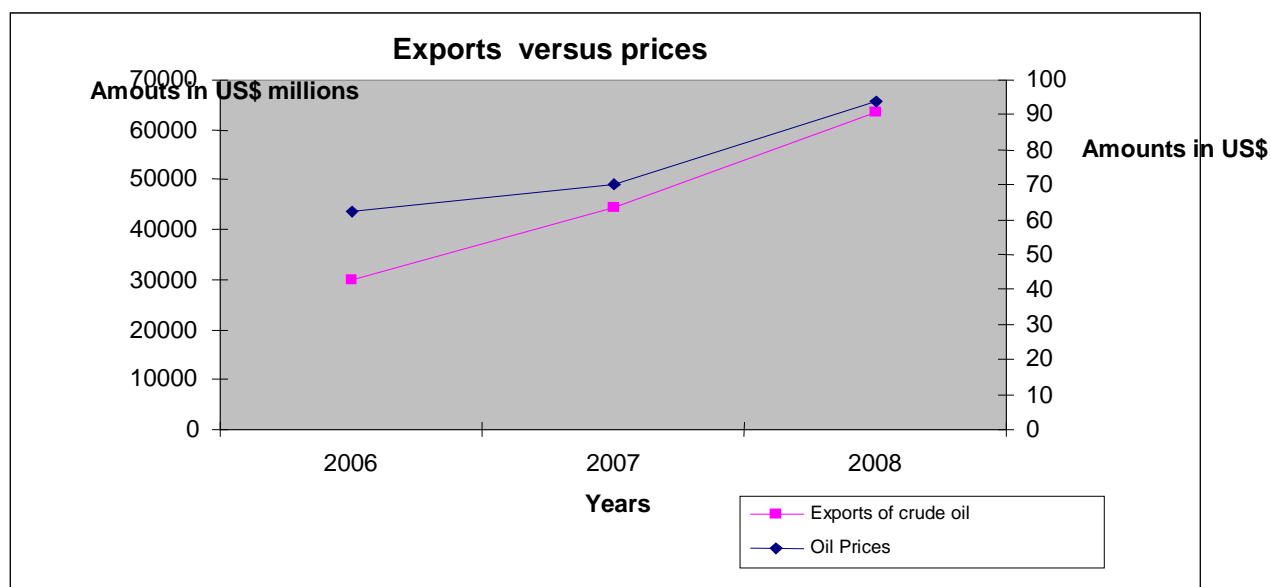
It is calculated this year a deficit in the current transference account due to a strong reduction of the Public Aid to Development (**APD**), what justifies once more that the Angolan Government is implementing the national reconstruction program with few international support.

#### 7.2.1. – Assets accounts

Calculation of this account point to a superavit of 46.618,2 million dollars in 2008 compared to 30.734,7 million dollars in 2007 representing a relative increase of 51,7% compared to the same period of the previous year. To this result contributed the growth of 46,8% of export income, despite, also, the increase of assets imports in 35,9%.

The increase of exports is largely explained by the increase of price in the international market and the increase of the internal production of oil and diamonds. It is worth to mention although timid, an increase of production derived from oil, coffee, fishery and wood.

The production and price of crude oil and diamond have, truly, a positive effect on the stability of the main indicators of external equilibrium of the Angolan economy due to the strong dependence of the national economy to these two main sectors of export and, consequently, the two main providers of the external income.



As can be seen in the graphic above since 2006 the price effect was a determining factor for the increase of the export income, although there was also an increase of crude oil production and, consequently, also the volume of crude oil exported which determined the increase of export income.

It is expected that the production has passed from a level of 1697,3 thousand barrels of oil per day in 2007 to a volume of 1906,0 thousand barrels per day in 2008 representing an increase of 12,3%, while the price passed from 70,04 dollars a Barrel in 2007 to 93,7 dollars in 2008 with an increase of 33,8%, being, effectively the increase of price the driving factor of the export revenue increasing during the year in reference.

The surplus of the commercial balance represented in 2008 around 54,2% of the Gross Domestic Product, compared to 46% observed last year. This improvement of the surplus of the commercial balance in relation to the GDP can be justified by the factors mentioned above, namely, the increase of price and amount of minerals exported and there is still a substantial improvement seen in the growth and diversification of the internal production.

#### 7.2.1.1-Exports

In analogy to what happened in previous years, exports in Angola maintained, within the period of analysis, a crescent behaviour, with highlight to crude oil and diamond as shown in the following table:



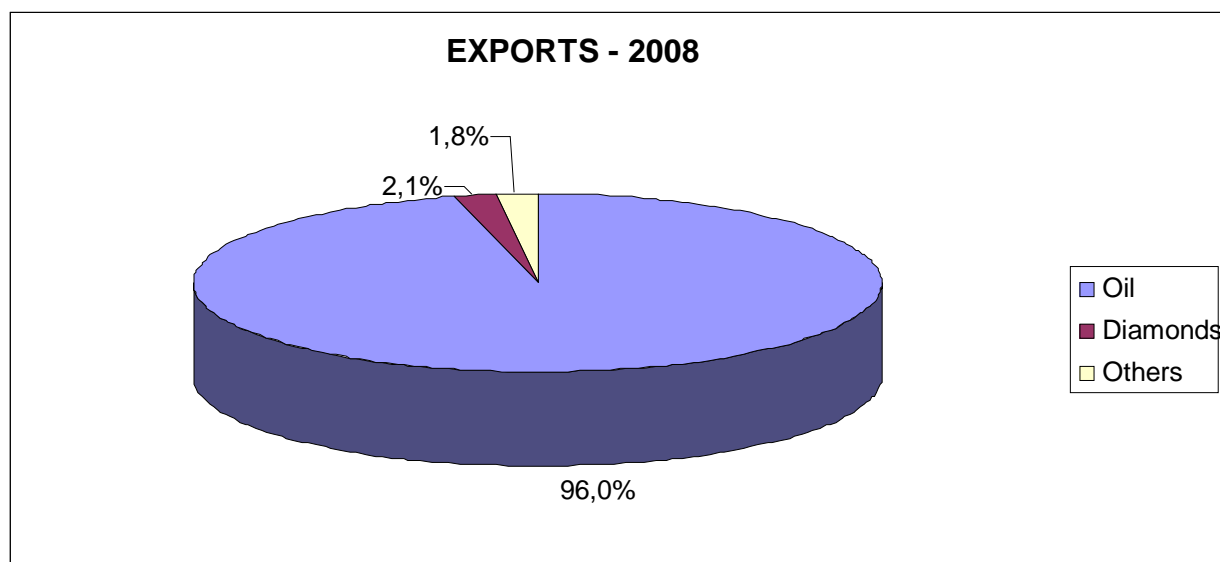
**TOTAL EXPORTS**  
(Million dollars)

Item	2006	2007	2008
<b>Total of Exports</b>	<b>31.862</b>	<b>44.396</b>	<b>65.180</b>
<b>Crude Oil</b>	29.928	42.352	62.596
<b>Diamonds</b>	1.154	1.182	1.402
<b>Other 1</b>	778	862	1.182

SOURCE: BNA/DEE/BP

**Notes:** (1) Includes: Refined Gas, Coffee, wood, Fishery, by-products

As can be observed in the graphic bellow, the exports in general, the crude oil maintains the first place contributing with an average percentage around 96% followed by diamonds with an average of 2,1% and other products with an average of 1,8%, concluding in this was, that the Angolan economy still depends on its main exports products. So, a change in price of these products will inevitably have an impact in the Current Account and in the global surplus of the payment Balance.



This situation shows the persisting asymmetric development of the productive sector in Angola strongly bi-mineral and bi-exporter. In this conformity and similar to recommendation from previous years, structural measures should be cautioned aiming the better use of the oil synergy to develop other sectors of the Angolan economy. It stressed that in 2008, on the contrary to what was expected, an increase of crude oil exportation

which represented 95% of total exports in 2007 to 96% in 2008, which represented a decay of duty in other exports in general. This reinforces the need to increase the diversification of export activities of the national economy.

#### 7.2.1.2 - Imports

The imports increase are calculated around 35,9% compared to 2007 which will reach more than 13.661,5 million dollars in 2007, to 18.561,8 million dollars in 2008. The following table permits to see a slight reduction in consumption goods importation changing the historic tendency seen since the independence of Angola despite the global strong growth of imports.

In this table we can observe the expressive duty of the capital goods item and the intermediary consumption in the total of imports which can be explained by the increase of public and private investment taking place due to the national reconstruction process and the restart of the internal production.

**ECONOMIC CLASSIFICATION OF IMPORTS**  
(Million dollars)

Year	2007	2008	Δ%	Duty
<b>Total of Imports</b>	<b>13.661,5</b>	<b>18.561,6</b>	<b>35,9</b>	
<b>Current consumption goods</b>	4.084,7	5.160,2	26,8	27,9
<b>Intermediary consumption goods</b>	4.603,9	5.679,9	23,0	30,5
<b>Capital Goods</b>	4.972,7	7.721,7	55,3	41,6

SOURCE: BNA/DEE/RBP

Yet, despite structural constrains, the macro economic measures taken by the government, combined with the democracy consolidation process gave space to restart the agriculture and industry. This fact will allow, in short term, the replacement of importation of current consumption goods and the exportation of the excess of the internal production. Thus, the suggestion that it is important to diversify the production and increase the productivity in different sectors of the national economic life, namely in agriculture, industry, fishery, energy, construction and services, aiming to substitute importation continues to be valid.

### 7.2.2- Balance of Services

Similar to previous years, the service balance will present a deficit of 16.256,7 million dollars in 2008 which is an increase of 31,8%, if compared to the deficit of 2007 about 12.332,5 million dollars.

This worsening will be influenced mainly by the expenses in transport and travelling caused by the expressive level of goods and service importing, by contracting specialized services for technical support for the oil sector, the increasing of service in construction and insurance, as well as the increase of public expenses with the maintenance of diplomatic representation outside the country.

The service credit of 347 million dollars reflects improvement in the collection of statistic information particularly in the tourism sector, air transport and reinsurance. However it is worth to mention that Angola will continue, even for some time, to be a liquid importer of service outside the country.

**SERVICE ACCOUNT**  
(Million dollars)

Item	2006	2007	2008
<b>Surplus of service balance:</b>	<b>-6.026</b>	<b>-12.333</b>	<b>-16.256</b>
<b>Credit of Services</b>	1.484	311	347
<b>Debt of services</b>	-7.511	-12.643	-16.604

SOURCE: BNA/DEE/RBP

So, it is suggested a better use of the existing potential in other area of services particularly in tourism, insurance and reinsurance, commission and royalties to increment the income which can contribute to the improvement of the surplus of this account and reduce the dependence to exterior.

### 7.2.3.-Incomes

The income account will present a deficit of 12.424,5 million dollars in 2008 against 8.778,2 million dollars in 2007 originating an aggravation of 41,5%. This happens due to:

- Increase of profit and bonus particularly in the oil sector of 10.799,8 million dollars compared to 7.268,2 million dollars in 2007, an increase of 48,6% due to the most accented preoccupation of direct foreign investment in oil and diamond sectors, derived from the price increasing of oil and diamond in the international

market, due, also, to the payment of the first part of interest on late payment to some countries members of the Paris Club.

- To the increase of working income in 11,7% compared to last year.

**INCOME ACCOUNT**  
(Million Dollars)

Item	2006	2007	2008
Surplus of the income balance	-6.178	-8.778	-12.425
Credit of income	145	33	39
Debt of Income	-6.323	-8.811	-12.464
Interest:	-805	-1.168,50	-1.246
Including interests on late payment	-185	-34	-786
Profit and bonus	-5.277	-7.268	-10.799
Working income	-241	-374	-418

SOURCE: BNA/DEE/RBP

#### 7.2.4.- Current transfers

The behaviour of this account reflects, to a certain extent, the weak support from the international community to the national reconstruction process. As referred to earlier, Angola receives to little support Aid for Public Development from the international community, if compared, for example to other African countries from the Sub-Sahara region. In 2008 Angola will present a liquid deficit of 266,3 million dollars against the 221,9 from last year, an increase of 20,0% from which 11,7% refer to the money request made by foreign employees in our country.

The surplus of the payment balance of Angola will continue depending on exogenous factors, namely, the price of imported merchandise and on the prices of its main exports products.

To minimize in the future, the impact of exogenous factors on the equilibrium of the external debt of the Republic of Angola, measures of structural nature must be cautioned, namely, more flexibility and volatility of the national currency, to restart the agro industry production, increase of internal productivity and competition and increase the non traditional exportation in the regional and international market.

### **7.3.- Finance and capital balance**

The Capital account, in the Angolan context, is residual in 2008, reflecting a decrease of 29,9% compared to last year. The surplus of this account decreased from 7,2 million in 2007 to 5,0 million in 2008.

On the other hand, the finance account had a very regular behaviour in 2008 being observed a strong recovery of the foreign direct investment. The liquid surplus of this account increased from 5.813,8 million dollars in 2007 to 11.422,4 million in 2008 correspondent to an increase of 96,3%. This increase is particularly associated to the recovery of the foreign direct investment in the oil sector, due to contracts which allow an anticipation of the recovery of investment before an increase of the oil price. (Contracts of production sharing).

#### **7.3.1.- Short and long term loans and other capital**

Loans to medium and long term represented a positive surplus in 2008 of 2,524,7 million verified in 2007 representing an increase of 48,2%. This surplus is a consequence of strong entering of new reimbursement for medium and long term to the amount of 4.896,8 million dollars and an expense of 1.128,8 million.

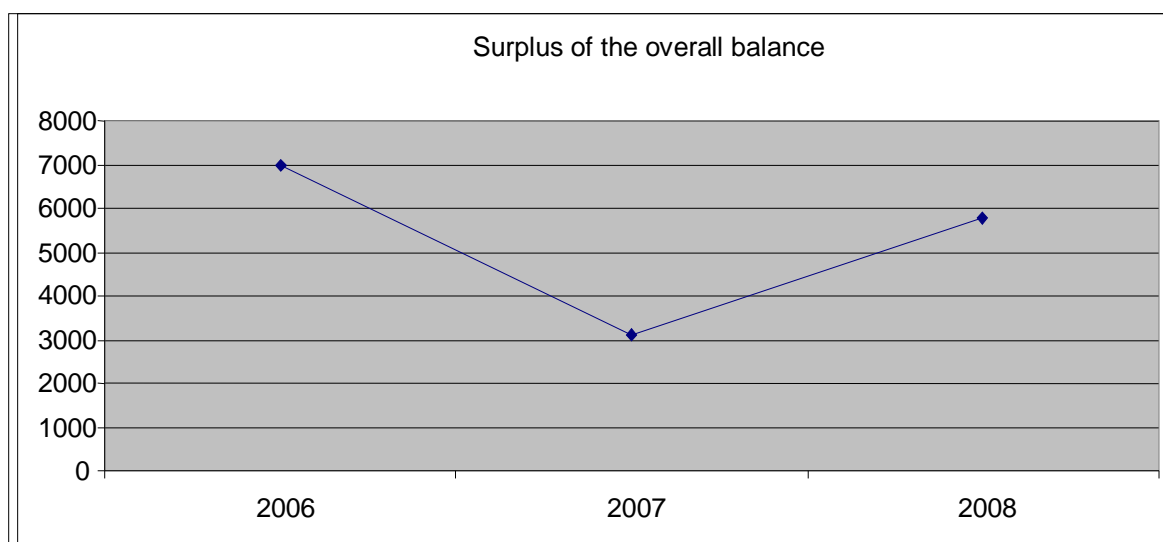
In 2008, similar to what was happening in 2007, contracts of new loans to face the national reconstruction process increased, in better contractual conditions and with various international creditors.

Other capitals reflect, in majority, the deposit and investment of particulars outside the country and also a certain lack of information. In this period, it was verified a moderated increase of this account from 6.540,6 million dollars in 2007 to 6.653,6 million dollars in 2008 representing an increase of 1,4% which reflects a minor transference of savings from particulars or companies outside the country.

This account shows a certain difficulty in collecting information because of the final information about the payment balance not being completely available reflected in the mistakes and omissions included in this item. The errors and omissions reflect the difficulty originated by the deficiency in the statistic information cover and also inter-temporary difference of register as well as discrepancy in the information source.

### **7.4.- Overall balance**

It is calculated in this period a *superavit* of the balance in the amount of US\$ 5.799,5 million compared to 3.126,4 million dollars from last year representing about 6,7% of GDP which is an improvement compared to the last year which surplus represented about 5,2% of GDP.



As observed in the graphic above, the surplus of the overall balance had during the last three years *superavit*, reflex of a good performance of the Angolan economy.

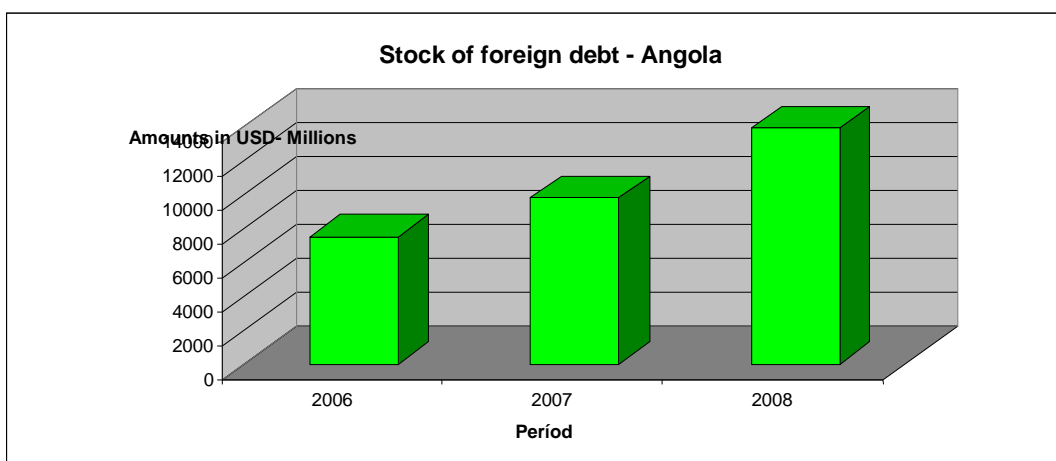
The behaviour of the overall balance in 2008 will continue to reflect, globally, the behaviour of the main exports products prices as well as the quality of political measures of macroeconomic stability implemented by the government.

The peace consolidation and democracy are fundamental factors in macroeconomic stability consolidation because in this way it will be possible to capture more foreign resources needed to restart the production and consequently the reduction of poverty.

#### **7.5.- Medium and long term stock of foreign debt**

For the analysis of this chapter will be used preferably, the information source of DMFAS database of the National Bank of Angola which reflects effectively disbursement made having a certain difference between this and the Ministry of Finance, present in the GSB of 2008 which reflects adopted commitments which will probably, not occur in the period of analysis.

In December 31, 2008 the stock of external debt for medium and long term, including delayed was 13.860,2 million dollars or 4.054,0 million dollars higher than last year's position. This worsening is due to the increase of the unsettled debt of the period (exclude delay) from 9.401,8 million dollars last year to 13.392,4 million dollars this year representing an increase of 42,4 %. This behaviour can better be observed through the graphic presented bellow:



In the period of reference, the capital and the interest in late payment, suffered a slight growth compared to last year despite the payment of delayed interests with countries members of the Paris Club. So, the delay of capital and interests have increased from 404,4 million dollars in 2007 to 469 million dollars presenting an increase of 15,9%.

In 2008 was registered a slight improvement in the ratio of stock of the debt in medium and long term in the exports percentage of goods and services non factorial placed in 21,1% compared to 25% of last year explained by the increasing factor of exports despite the increment of the debt stock.

**STOCK OF THE FOREIGN DEBT 31 DEC 2008  
(Million dollars)**

Debt category	Surplus excluding delay	Capital in delay	Interest in delay payment	Stock in the end of the period
<b>1-Commercial</b>	<b>8.043</b>	<b>361</b>	<b>80</b>	<b>8.484</b>
Bank	7.760	156	14	7.930
Companies	283	205	66	554
<b>2-Bilateral</b>	<b>4.971</b>	<b>23</b>	<b>4</b>	<b>4.998</b>
<b>3-Multilateral</b>	<b>378</b>	<b>0,9</b>	<b>0,8</b>	<b>379</b>
<b>Total</b>	<b>13.392</b>	<b>384</b>	<b>85</b>	<b>13.861</b>

**SOURCE:** BNA/DEE

As can be verified in the table above, despite the increase of the debt, we consider the current debt stock of Angola, sustainable in medium and long term looking at the

level of exports and stock of the 2008 GDP. Meanwhile is still necessary the implementation of external debt strategy in medium and long term compatible to the level of GDP growth and the exports, mainly non oil exports.

In the current circumstances of a robust economic growth, it would be very useful for the country to get a *rating*, which would allow obtaining a favourable credit risk classification able to facilitate and support the public and the private sector to get more credits with less embarrassment in the international market and in more concessional terms.

## **8.- EMPLOYMENT AND PRODUCTIVITY**

### **8.1.- Introduction**

What is known about unemployment in our country? The numbers differ very much from its rate, because there are not official statistics for the known calculations are based on distinct methodologies because it is known for sure how much we are, etc. Meanwhile the perception of common people, specialists and investigators is that the unemployment percentage in Angola is very high, normal to a country not occupied in terms of productivity for 27 years due to the military conflict.

Employment is one the most important Macroeconomic variable, because one of the great goals is conveyed through employment. Truly, an economically rational distribution of the national income – anchored in real gains and effective productivity – and socially balanced through the control of excess concentration of wealth is always one of the strategic objectives of any government in any part of the world. So, it is logic the preoccupation about the employment because the more unemployed is the major part of the population the greater will be the level of loss of social development opportunities.

The programming and management of this important economic and social variable depends on different factors.

Soon, the statistics information. If the real rate of unemployment – general, by age, profession, region, sex, sector, activity sector, type (structural, frictional, economic, seasonal, voluntary, involuntary), etc – it is very difficult if not impossible to delineate proper and effective policies for employment generation..

Secondly, is the nature of the economic development model. The current Angolan model – anchored in activities strongly intensive in capital and technology such as mineral extraction – does not propitiate the maximum job creation. The oil, diamond and other mineral extraction cannot guarantee even 1% of the total in employment and even if added to activities of service providing in the mining sector the employment generation level will not be more than 1,6% of the total employment created. The next table confirms it.



**EMPLOYMENT IN THE MINING SECTOR**  
(% of the total employment)

SECTORS OF ACTIVITY	2006	2007	2008
Mineral	0,98	0,93	0,88
Mineral+Oil Service	1,6	1,6	1,6
Oil	0,23	0,24	0,22
Oil+Oil Service	0,87	0,86	0,91

**SOURCE:** Government of Angola, Implementation Report of the General Government Program for 2008.

The strategies for investment and production diversification defined by the government in its different programs of economic intervention have not given, yet, results although the rehabilitation of infrastructures is generating some thousands of employment, meanwhile, it is of temporary nature. The big project of constructing one million houses until 2012, will, for sure, help to improve the process of diversifying the economy which is of long term. What is being done is to set the first steps to increase the resistance of our economy to external shock of the international competition.

Finally, it is the way of functioning of the employment market. In this specific context of public policy two adverse models come across: the one which defends the total flexibilization of job offer and demand mechanism – and, consequently, to fix the salary rate which requires a direct intervention of the state in regulating the functioning of the respective market<sup>72</sup>. Europe – more social – and United States – more liberal – exemplify the current contradiction around the model of the employment market which can rapidly generate a greater volume of employment. In Europe it seems the choice was the Danish model of flexibility and security: flexibility in the employment market – to respond to international competition challenge – and security in employment as condition to the social stability and sustained increment of the aggregated demand of the economy.

To the nature of the employment policy still depends. The employment policies can be of “*supply side*” or “*demand side*”, those which aim to reduce job supply for the population and other to increase the working demand for the economic system.

The very much expected retraction of the economic growth of our country in 2009 will have negative impact on the employment generation and to domains related to it like:

- \* Reduction of poverty which represents a close correlation with the growth of the economy and the *spill over effect* on the non mineral sectors.

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<sup>72</sup> In the paragraph 2.2. it was shown that the viscous functioning of the Angolan working market is one of the reason of the 174th position Angola occupies in the world for the item “*freedom of contracting and dismissing an employee*”. Meanwhile the World Bank perspective is in favour of a complete liberalization of the working market, a perspective which many Angolan economist do not agree and the government due to the existing social fragility and caused by the 27 years of war and almost the same for the administrative economy.

- \* Improvement in sharing the income, which has a direct connotation with the participation of increment of job wage in the composition of the national income.
- \* Repopulate the countryside admitting that the *spill over effect* has a regional determinant. The fixation of the population depends very much from the availability and stability of employment.
- \* The creation of big critical brain demand in the provinces, needed to attract the economic activities and private investment.
- \* The reduction of inequalities in gender taking into account that empiric evidence shows that unemployment affects much more women than men.
- \* The reinforcement and the consolidation of the national reconciliation, while employment facilitates the access to income to improve the living condition in a balanced way.

This means that, employment is an economic category with enormous importance for the Angolan strategy of growth and a nuclear tool for the policy of promoting greater participation of the working factor in the composition of national income. This is the reason why it makes sense the following question: what is the growth rate of the Gross Domestic Product needed to set a sustained reduction of unemployment in our country? The answer to this question will show the real dimension of the phenomena in Angola concerning the challenge to the public policies and to entrepreneurship strategies and to the serious manner required to be dealt with beside simple political considerations which do not correspond to the concrete possibilities of the country.

The relationship between economic growth and unemployment rate is known as the **Okun law** – a deceased American economist who has been part of the prestigious Economic Council of the American Administration during the mandate of President Bush (father) – which stipulates a decrease of general unemployment rate when the real growth rate of the GDP is higher than its tendency rate.

The starting point in order to find the answer to the question formulated above is the unemployment rate calculated further ahead (paragraph 8.2) placed around 23,9% of the active population in 2008. The tendencial growth rate – long term – of our economy is calculated around 9,6% according to what was presented previously.

The goal established by the government program to create 1300 000 jobs for a period of four years corresponds to a partial annual goal of 320 000 jobs. Starting from the unemployment of 23,9% in 2008 at the end of the considered period, its value would go to 8,9% an expressive reduction of 15 percent. The application of the law of Okun drives to a real average annual rate of economic growth of 25,1%.

Is this average annual growth of the GDP possible? As remembering up to now, the best performance of our economy was 20,9% to the cost of factors and 23,3% to market prices in 2007. Still, it is probably possible, but not for long consecutive years.

On the other hand, the creation of 320 000 each year can implicate the correspondence of 32 000 new small and medium companies of 10 employees.<sup>73</sup>

While the economies get stable and growth becomes a normal process, the tendencial growth rate have reduced, If there were not the unnecessary prolongation of the military conflict, after 1992, from which the responsibility is known, probably our economy would already be in a normal road to normal growth with greater possibilities of job creation.

A much soft objective compatible with the consolidation of the economy, social and political stability and consistent with different complexities related to unemployment and the policies to solve them, is to devote more time to create the same volume of employment with best salaries. Considering a period of time up to 2014 and the creation of 225 000 new jobs – equivalent to a total volume of 1 350 000 and an unemployment rate of 7,7% at the end of the period – the average annual rate of the GDP would be 18,5%, still high for a stability, sustainability before the internal and external uncertainty such as the current world economy crisis.

The problem raised now is of disparity, or better, the creation of Jobs is, most of the times less proportional to the economic growth. In the decades of 60, 70 and part of 80 of the last century the empiric evidence were different, being identified correlation more than proportional between the economic growth and the increase of job creation. The most known cases are the “*glorious 30 years*” in the Keynesian Europe during which the high rhythm of the economic growth determined the exhaustion of the internal supply of manpower, having the majority of the European countries made recourse to immigration as a way of compensating the respective deficit. Today is different, but it is important to know that it is not simply employment the necessary condition to transform, modernize and progress the economic system. One of the most important elements of these positive processes of structural transformation is the productivity which establishes a “*trade-off*” with employment which can be mitigated by public policies which prioritize investment of high intensity of employment.

## **8.2.- Approaching unemployment and productivity**

The unemployment rate in Angola might continue very high. According to a fast inquiry on the living condition of the population made by INE in 2006 by sample selection procedure the general rate of unemployment was 19%. Luanda with 23% is on

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<sup>73</sup> A daily average about 88 companies. Even before the difficulties, strangulation, excess in bureaucracy and corruption (high cost of the economic activity) discussed in the 2nd paragraph, seem to be possible to recognize these requests, if they correspond to signs and indications of the market.

top of the list. The results present some contradiction such as the inland provinces of the country – definitely the most late-comer and poor in the country – have presented an unemployment rate of 7% and 8% of the population economically active.

The results presented by CEIC in the 2006 Economic Report indicates an interval between 27,4% and 32,3% for the national unemployment rate. In the 2007 Economic Report the variation interval has reduced to 25,3% and 28,7%. The decrease of 32,3 to 25,3% of the unemployment rate derived from a very intense economic growth calculated in 23,1% in market prices.

For 2008 are equally calculated reductions in this important social indicator but less expressive than 2007. The unemployment rate calculated for 2008 is 23,9%, a gain of 1,4 percent. As reminder, in 2008 GDP varied only 13,8% (the government expectations were 15,6%) from which less impact of job creation.

Despite of a descendent movement, the unemployment rate is still high meaning a loss of opportunities to improve a functional distribution of the national income and the permanence of a hiatus of product expressively positive (difference between the potential GDP and the real GDP)<sup>74</sup>.

In Angola despite the high rate of unemployment and weakness and embryonic stage of the security system and social providence (not structures yet and inclusive) there has not been important social disapproval at least for a while. Why? There might be three reasons for the relative current social tranquillity:

- The conscience of generalized instability and insecurity of war is still present in the society. Unemployment is accepted as a tolerable evil than the deep social disturbance and the criminality is presented to decompress the pressure caused by the very low level of living;
- The corruption within the state and within companies, specially the one of low intensity permits to alleviate the shortage and insufficiency of income of one part of unemployed population; in this way, the established power – normally fearful of social disturbance – minimizes corruption, being understood, however, timidly in fighting or eradicating corruption (what is done of the high authority against corruption? How many cases were sentenced?) as the public policies to Job creation have not being creating the expected increment of liquid Job, corruption is finally tolerated<sup>75</sup>; the country economic increasing has not being

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<sup>74</sup> In condition of natural unemployment rate of 4% and of productivity about 12000 dollars, the potential product is 104,9 thousand million dollars.

<sup>75</sup> MAPESS has been implementing training programs, recycling and Professional improvement, from which the consequences, in terms of employment, only at long term will be seen if the content of the

generating employment at the expected proportion and fundamental for expressive and sustained reduction of unemployment;

- The informal economy has been the backrest of the high level of unemployment in Angola – in absolute numbers would have been unemployed in 2008 more than 2,1 million Angolans – working as an alternative sub-system to the formal economy still essentially not structured in its non-oil sector with fundamental contradiction between the economy of diamonds and agriculture, the biggest current employer of the economy; to repress the informal economy can mean a social suicide, to formalize it step by step ( with micro credit, to facilitate its juridical legalization ) is the most intelligent way.

How the unemployment and productivity have developed in our country between 2000 and 2008? Nobody know because there are no statistic about the employment, the Aggregate Value of the Economy, the business accountability, the population economically active and other variables correlated to the productivity.

Nevertheless, there are available tools and instrumental and methodological heaps which grant acceptable approximation.

#### ESTIMATES OF UNEMPLOYMENT RATE AND APPARENT GROSS PRODUCTIVITY

YEARS	Thousand dollars GDP	Population	GDP per capita (dollars)	Active Population	Unemployment rate (%)	Productivity (USD/worker)
2000	9045369,4	14232610	635,5	6344000	40,9	2413,0
2001	8716373,1	14645356	595,2	6477117	39,2	2214,5
2002	11239844,1	15070071	745,8	7414475	44,3	2719,6
2003	13513151,3	15507103	871,4	7629495	42,3	3070,1
2004	19006100,4	15956809	1160,3	7850750	40,3	3949,8
2005	30271482,6	16419557	1843,6	8078422	34,5	5722,9
2006	47937381,4	16895724	2837,2	8312696	32,3	8520,8
2007	60638200,0	17385700	3487,8	8553764	25,3	9496,4
2008	83925900,0	17889885	4691,2	8801824	23,9	12535,0

actions fit to the real needs of the economy in terms of employees. Another expected effect also in the long term is the improvement of the national average salary much more related to qualification and productivity of job with positive consequence on the functional distribution of income.

**SOURCES:** Ministry of Planning (Report about the Economy Behaviour in 2004 and 2005, Balance Reports about the implementation of the Government General Program 2004, 2005, 2006, 2007 and 2008); General Government Program 2005-2006 and 2007-2008; Estimates and calculation from the Centre of Studies and Scientific Research UCAN.

In spite of a truly favourable evolution since 2000 with particular highlight for 2006, 2007 and 2008 the productivity presents, still, very low indexes, particularly when inserted in the international contexts. The average apparent gross productivity in South Africa is about 32500 dollars per employee and in the European Union is around 165000 dollars.

Despite this, the sector differences are huge, confirming, also by this the structural disequilibrium of our economy. For 2008 the average apparent agro *gross* productivity (including activities in fishery) probably was not more than 1230 dollars per employee (875 dollars in 2007)<sup>76</sup> while in diamonds and other mining activities might have been almost 56000 dollars per employee and in the oil-sector for sure has been more than 3 million dollars due to the highly intensity capital-technology of this activities.

#### SECTORAL BEHAVIOR OF THE APPARENT GROSS WORK PRODUCTIVITY

(Dollars per employee)

SECTORS	2005	2006	2007	2008
Agriculture, sylviculture and fishery	549,0	770,4	875,2	1233,2
Oil and by- products	1384151,3	2119221,4	2000560,8	3131318,8
Diamonds and other	22228,5	27577,4	24787,7	55873,5
Manufacturing industry	38141,1	61029,2	78769,7	133094,7
Public labour and construction	22639,0	10012,6	13701,2	15563,0
Commerce, Bank, Insurance, Services	29501,8	31132,2	31720,0	34208,2
Other	10614,4	15353,5	14601,2	17373,7
Average apparent gross productivity of the economy	5722,9	8496,2	9332,9	12614,3

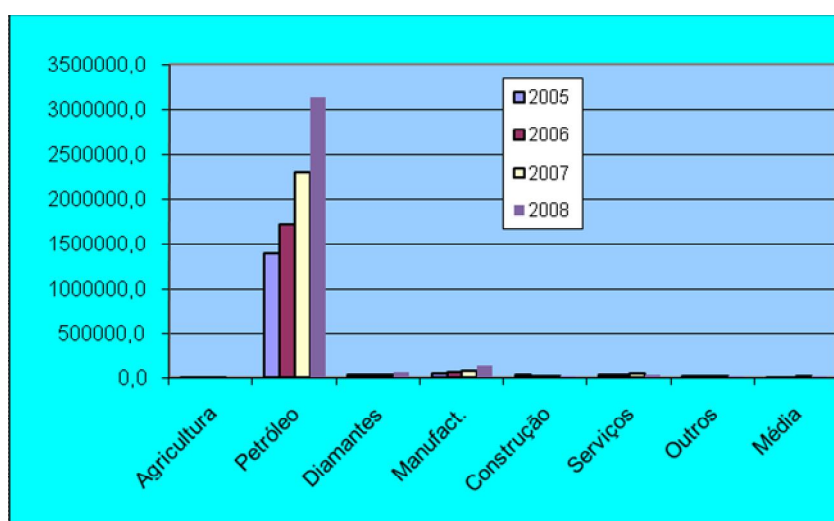
**SOURCE:** CEIC, Macroeconomics Team.

<sup>76</sup> The World Bank – World Development Report 2008: Agriculture for Development – indicates the following medium values (in dollars from 2000) for the average apparent *gross* productivity in the Angolan Agriculture: 183 between 1990/92 and 160 for the period 2001/2003 (page 340). However, many doubts are raised to numbers presented by this institution, one of them related to the volume of employees in agriculture effectively employed.

Despite the uncertainty of information about the employment sector, the difference are disproportionate between the level of the sectoral productivity although a situation of improvement is seen such as in manufacture and tertiary activities with stress to those related to telecommunication and bank services.

#### APPARENT GROSS PRODUCTIVITY OF WORK

(Dollars per employee)

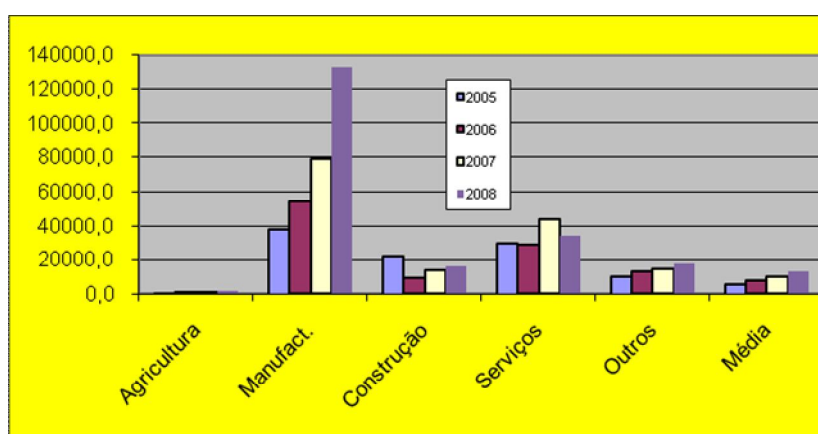


SOURCE: CEIC, Macroeconomics Team.

The configuration seems more intentional because the high sectors in terms of technology are not considered in the graphic visualization.

#### APPARENT GROSS PRODUCTIVITY OF WORK

(Dollars per employee)



The improvement of the productivity in the primary sector (agriculture, fishery, forest and fishery) – beside the policies intentionally designed for the effect – depends on the success of the economic growth and the transference from the employees power to the secondary and tertiary sector of the economy.

The unemployment rate has been reducing since 2002 as conjugated result of different sectors among them the definite resettlement of the displaced people who were living in coastal cities, the positive behaviour of the private investment – even concentrated very much in high technology sectors and capital intensive – the employment policies implemented by the government through MAPESS and in 2006, 2007 and 2008 the physical infrastructures of the country (the State has invested in these areas 1,5 billion dollars in 2005, 5,4 thousand million dollars in 2006 7,1 thousand million dollars in 2007 and 11,9 billion dollars in 2008 according to diverse government documents like Balance Reports of the Government Program and the Budgetary Implementation Reports).

In 2008 309909 jobs were created in different sectors of activities, including public administration, in which the universe of civil employees was 297571. However, it is important to mention that the volume of jobs generated is *gross* since there is not available information about employment distribution, namely in areas highly influenced by seasonal variation of the economic activity like agriculture and construction.

It should still be considered the reduction of the average real salary in economy as another cause of employment increase. As it will be seen in paragraph 9.3 of this Report about the living condition and purchasing power of the average salary in the Public Service, the real average salary has been lessening since 2003 which can be a good reason for the business people to hire more workers.

Comparing the apparent gross average productivity to annual average salary of Public Service and the minimum national salary the results are as follow.

#### COMPONENTS OF THE LIVING CONDITION OF CITIZENS

YEARS	GDP per capita (dollars)	Unemployment rate (%)	Productivity (USD/employee)	Minimum national Salary (usd)	Average National Salary (usd)
2000	635,5	40,9	2413,0	480,0	364,1
2001	595,2	39,2	2214,5	480,0	1199,2
2002	745,8	44,3	2719,6	480,0	1749,5
2003	871,4	42,3	3070,1	536,1	2125,4
2004	1160,3	40,3	3949,8	632,9	2676,1
2005	1843,6	34,5	5722,9	800,2	3430,6



<b>2006</b>	2837,2	32,3	8520,8	898,3	3851,1
<b>2007</b>	3487,8	25,3	9496,4	1350,8	4586,5
<b>2008</b>	4691,2	23,9	12535,0	1485,9	5045,2

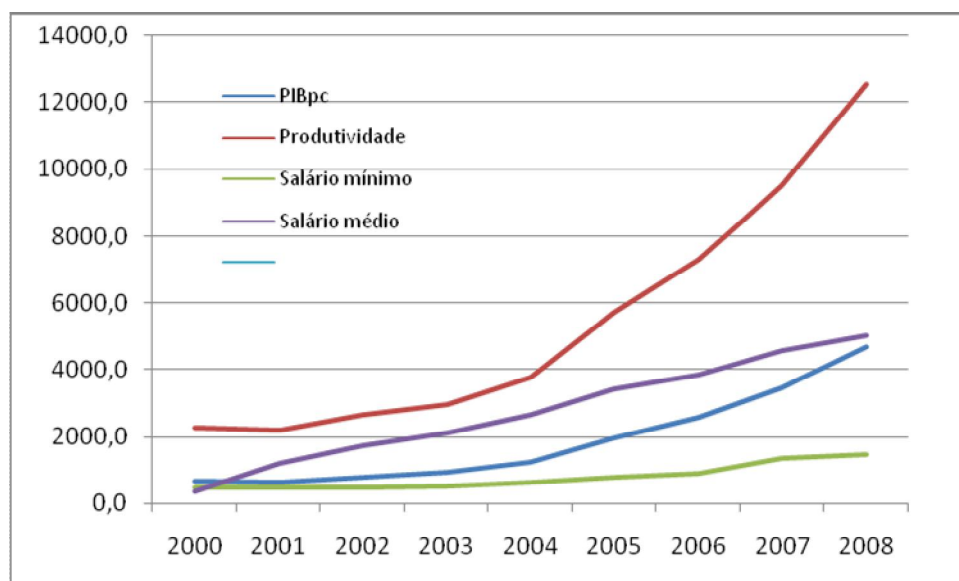
**SOURCE:** Information related to salaries was taken from documents distributed by MAPESS during a workshop on 30th April 2007 about the Evolution of the remunerative system, Policy of Income, Price and Productivity 2002/2006. The conversion to dollars and the calculation of the central points of salaries are the CEIC's responsibility. The salaries values are annual.

The verage salary of the Public Administration represented more 7,5% in 2008 than the GDP per inhabitant (31,5% in 2007) and 3,4 times more than the minimum national salary. Generally, however, the respective absolute values are low: the minimum national salary corresponded to a capacity of daily expense of 4,1 dollars in 2008 (3,7 dollars in 2007) above the line considered for relative poverty but not enough to stimulate the working productivity, to cover the basic food items, dignify the work and to value the living conditions of the families.

From the graphic perspective it is verified that between the productivity and national average salary – assuming that the average salary of the Public Administration is the general reference for the economy – the respective average diversion has been accented with particular incidence since 2005. This circumstance might have some controversial observations.

- First, can propitiate a valorisation of the average salary of the economy, particularly in sectors where the productivity value is expressively higher than the national average, such as in oil, diamond, market services and some branches of the manufacturing industry.
- Second, after having made the required reflection with the different sectors of the economic activity, the conditions for remuneration of private investment has been improving substantially, becoming one of the reasons for attraction about the foreign private investment.
- Third, the gains of the productivity have been obtained by introducing capital and technology.
- Finally, the inequality in the distribution of national income has been worsening because the accentuation of the average diversion between the productivity and the salaries is a symptom of reduction of the relative weight of the remuneration component of the manpower in the national income.

### COMPARED EVOLUTION OF PRODUCTIVITY AND AVERAGE SALARY



SOURCE: MAPESS and estimates of the CEIC Macroeconomics Team.

### 8.3.- Public policies of professional training and employment

The State's Program for Administrative Reform is "a plan which present and systematises the policy for institutional reform and modernization of the country. The administrative reform, as a progressive process, integral and profound has, therefore, to be understood as a set of multiform and global actions, perfectly harmonized according to the established priorities done, at first place, by detaining and equating the main factors, insufficiencies and tendencies at the level of organization, function and relation existing in the Angolan public administration".

This perspective is based on the reality that the roles of the State require new strategies, new competence and new institutions. It is needed, in this vision, that the State uses management techniques adjusted and modernized without forgetting its public character.

The reform of the State is a huge and current topic which incorporates political aspects, organizational and administrative, which are related to good governance, with the regulation of the economy and, with no doubt, with attention to urgent social

questions, issue which have been debated with some controversy. In the core of the discussion there is two problems interrelated to the two central disagreement: in one hand an efficient public administration from the perspective of cost/benefit meaning working, improving with low cost; and on the other hand which competence and decentralized program must the State do and develop or not.

As indicated by the Minister of Public Administration, Employment and Social Wellfare, in the 9th Workshop for public service in the scope of the administrative reform, were adopted legislative measures with the approval of the legislation and other regulator acts aiming better performance of the rule of law with the objective of conforming the Public Administration to the challenge of modernity and competitiveness.

However, the degree of efficiency and efficacy are still far from satisfying the demand of the needed quality. Within the new frame of public service what is important is to secure that institutions stick to the “culture by quality” based on principles of good performance, assisting spirit and support to good governance which means to focus greater investment in human capital in order to reach the different level, more productivity, greater competence and better results.

It is imperious to shorten time, to unblock circuits, to make the procedures less autocratic, mainly sectors with greater interface with economic operators and citizens. There has to be a clear conscience that the main objective of the State has to be always the citizen, giving him opportunities as the main beneficiary, have greater participation in the results of actions of the State’s administration.

The current metamorphosis observed in the concept of Administrative Reform of the State affects directly the idea about the interdependence between the State Administrative Act and Exercise and the Society as a whole, therefore, the Public Service must be prepared for the new challenge in this respect.

The reform processes do not have to do only with the State but also with the multiple possibilities of acting and responsibilities of the civil society which has an important role to play in spreading information and formulating problems. They are also related to the crescent liberalization of the economic activity and the role of the private sector in the economy, obliged to expand new services to develop the consumption and protect citizens, imposing new demands of interdependence and connection between all vectors.

To develop the interaction process between the State and Society does not depend only from the state to be open to the society but the society itself must learn to dialogue permanently with the state. This dialogue is identified in an enormous challenge which is the communication with the public which use it. Citizens have the right to get information and good service in the same way as the State must provide the needed and obligatory service.

With democracy the intervention of the civil society is much more active in the State administrative and political procedures. We are living in an era in which the State has to be transformed into an instrument for citizenship exercise. The citizens want to be an active part in process which can lead to, eventually, decision taking.

The reform and modernization processes must be seen as permanent missions of the State in cooperation with the society. For the State to (re) organize it is necessary to request management and administrative criteria which develop a permanent reduction of costs, looking for a greater interaction with the society, defining principles, demanding results, imposing ethic and professionalism, at last, demanding a new mentality from the public service deliverers.

The public service deliverer while in service must develop acts and competence which allows a response with greater celerity and demand to requests from the clients of the Public Service. Only with this modern thinking and spirit of accomplishment of “duty” he or she will be capable of better responding to the “New Face” of the Public Service.

The ethics in the public administration is another central topic in the issue of administrative reform. This must be promoted closer to the public agents and operators, providing in this way a mental changing which must be felt by all citizens who request service from those institutions daily. So, must be developed through the simplification of procedures, actions and administrative acts, meaning, with celerity of responses and quality of the provided service demonstrated in the way of acting and interacting with the citizen or in any other acts carried out by the public power in its hierarchical plenitude.

In the policies for the Public Service modernization it is important to consider among other things, the SIAC acting, integrated citizen attendance service, the foundation of Public Service Supervision Department, the implementation of the 9th Workshop for the Public Service with the topic “Quality in Public Service and Valorization of Human Capital”, the starting of the National School for Public Administration and the growing network of public service, administrative and entrepreneurship decentralized which are expanding gradually to locations.

SIAC is a modern institution for service delivery, a public-private partnership, congregating at the same space representation of various institutions and companies providing more than 90 public services from 12 partner institutions.

This is an attendance vision related to the concept of transforming the State into an efficient organism technically and administratively, open State and developing a new image of public service and citizenship which starts to give its first steps before the context of greater demands by the citizens for better public service.

An important branch of that service is UIMO – Intermediation Unity for Workers – concentrated mainly in providing service for information in integrated way to business people and employees giving an impulse to the working market.

This year, 68 municipalities were benefited with the amount corresponding to a global investment of 340 million dollars for local projects. The Government officialised the Supporting Fund for Management of Municipality providing financial resources to municipal administration for problems solving aiming to improve the public service providing and to contribute to the well being of the populations. According to the Minister of Territory Administration, the municipal and provincial governments are, currently, an extension of the central government. There are 30 Ministries and the intention is to create 30 provincial directorates or cabinets.

It is a way to the competence decentralization process until the province and locations at the same time that is started the pilot process of financial decentralization in the municipalities, being inherent in this engagement an obligatory and categorical act of control.<sup>77</sup>

With the openin of the National School of Administration and Development (ENAD) aiming to train needed competencies for better quality, ethics, efficacy and productivity of the public institutions and companies, through training activities, research, consultation and publishing, the premise is set up to train the State's administrative hierarchy, preferably those working as directors and technicians.

Thus, it is easier to stablish an Administrative State that is more in line with the democratic improvements in place and will respond easily to the immense need of all and related to citizenship.

### **8.3.1.- Public Administration**

In the period of 2006 and 2008 the public assets have increased 13,6%. At the national level the numbers were 261.544 in 2006, 291.997 in 2007 and 297.571 in 2008 with annual growth rate 1,9 % in 2006, 11,6 % in 2007 and 1,9 % in 2008.

In the 18 provinces there was positive variation of assets for the period 2006-2008 registering the provinces of Cunene 37,3%, Namibe 26,4 %, Lunda-Norte 26,2 %, Kuando-Kubango 25,7 % and Bengo 25,4 % the main increase.

**PUBLIC SERVICE COVERING THE POPULATION**

<b>Year/Population</b>	<b>N° (thousand)</b>	<b>Public Service</b>	<b>Ratio</b>
<b>2006</b>	16895,8	261544	64,6
<b>2007</b>	17385,7	291997	59,5

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<sup>77</sup>In Jornal O País in 4-5-2009

2008	17889,9	297571	60,1
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SOURCE: CEIC –Macroeconomics Team

Comparing the number of employees within the public service with the population, it has observed a ratio of 60,1, (59,5 in 2007) representing the existence of one employee in 60 inhabitants.

In other countries like Portugal for example, this ration corresponds to one employee in 15 inhabitants. We have to admit that the proportion in Angola is reasonable in which there is a bigger number of employees for assisting each inhabitant but we can also think that is the reason for the deficit in productivity and assistance quality to the citizen.

The reform of the public administration can change the reality of numbers by applying the mechanism of mobility to affect the service deliverers who are in excess to other who are in deficit.

*Characterization of Active Public service Providers (Distribution by Ambit, Gender, Activity Sector and Decentralization of local power)*

**DISTRIBUTION OF EMPLOYEES BY PROVINCE AND SEX**

Provinces	2007			2008			Variation 2008/2007
	Men	Women	Total	Men	Women	Total	
Cabinda	6.415	3.385	9.800	6.462	3.405	9.867	0,7
Zaire	4.360	1.029	5.389	4.630	1.202	5.832	8,2
Uíje	13.817	2.089	15.906	14.435	2.264	16.699	5,0
Luanda	46.334	27.574	73.908	45.956	27.535	73.491	-0,6
Kwanza-Norte	5.154	1.659	6.813	5.531	1.956	7.487	9,9
Kwanza-Sul	10.448	5.373	15.821	11.121	6.094	17.215	8,8
Malanje	7.135	3.472	10.607	7.230	3.585	10.815	2,0
Lunda-Norte	5.737	443	6.180	6.467	439	6.906	11,7
Lunda-Sul	3.744	772	4.516	4.225	775	5.000	10,7
Benguela	19.048	14.926	33.974	17.971	13.792	31.763	-6,5
Huambo	14.331	9.811	24.142	14.232	9.825	24.057	-0,4
Bié	15.207	4.608	19.815	15.750	4.612	20.362	2,8
Moxico	6.488	2.866	9.354	6.807	2.917	9.724	4,0
K. Kubango	4.217	1.858	6.075	4.871	1.859	6.730	10,8

Namibe	5.949	2.474	8.423	5.782	2.464	8.246	-2,1
Huíla	17.177	10.435	27.612	17.613	10.735	28.348	2,7
Cunene	4.218	3.900	8.118	4.534	4.193	8.727	7,5
Bengo	4.403	1.141	5.544	4.839	1.463	6.302	13,7
<b>TOTAL</b>	<b>194.182</b>	<b>97.815</b>	<b>291.997</b>	<b>198.456</b>	<b>99.115</b>	<b>297.571</b>	1,9

**SOURCE:** MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

The provinces of Luanda, Benguela, Huíla and Huambo have reached 53% of employees in 2008 while in 2007 the same provinces have reached 54,7 % of public employees at the national level.

The variation worthy of registration is related to increasing in the provinces of Bengo, 13,7 %, Lunda-Norte, 11,7 %, and Kuando-Kubango with 10,8 %. The province of Luanda was the only one with an effective decrease of 0,6 %.

#### **DISTRIBUTION OF EMPLOYEES PER SEX (VERTICAL STRUCTURE)**

Provinces	2007			2008		
	Men	Women	Total	Men	Women	Total
Cabinda	3,3	3,5	3,4	3,3	3,4	3,3
Zaire	2,2	1,1	1,8	2,3	1,2	2,0
Uíje	7,1	2,1	5,4	7,3	2,3	5,6
Luanda*	23,9	28,2	25,3	23,2	27,8	24,7
Kwanza-Norte	2,7	1,7	2,3	2,8	2,0	2,5
Kwanza Sul	5,4	5,5	5,4	5,6	6,1	5,8
Malanje	3,7	3,5	3,6	3,6	3,6	3,6
Lunda-Norte	3,0	0,5	2,1	3,3	0,4	2,3
Lunda-Sul	1,9	0,8	1,5	2,1	0,8	1,7
Benguela	9,8	15,3	11,6	9,1	13,9	10,7
Huambo	7,4	10,0	8,3	7,2	9,9	8,1
Bié	7,8	4,7	6,8	7,9	4,7	6,8
Moxico	3,3	2,9	3,2	3,4	2,9	3,3
Kuando-Kubango	2,2	1,9	2,1	2,5	1,9	2,3

<b>Namibe</b>	3,1	2,5	2,9	2,9	2,5	2,8
<b>Huíla</b>	8,8	10,7	9,5	8,9	10,8	9,5
<b>Cunene</b>	2,2	4,0	2,8	2,3	4,2	2,9
<b>Bengo</b>	2,3	1,2	1,9	2,4	1,5	2,1
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

**SOURCE:** MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

24, 7 % of the public assets were concentrated in Luanda province, followed by Benguela province with 10, 7 % of employees and the Huila province with 9,5 %.

**DISTRIBUTION OF EMPLOYEES BY PROVINCE AND SEX (HORIZONTAL STRUCTURE)**

<b>Provinces</b>	<b>2007</b>			<b>2008</b>		
	<b>Men</b>	<b>Women</b>	<b>Total</b>	<b>Men</b>	<b>Women</b>	<b>Total</b>
<b>Cabinda</b>	65,5	34,5	100,0	65,5	34,5	100,0
<b>Zaire</b>	80,9	19,1	100,0	79,4	20,6	100,0
<b>Uíje</b>	86,9	13,1	100,0	86,4	13,6	100,0
<b>Luanda*</b>	62,7	37,3	100,0	62,5	37,5	100,0
<b>Kwanza-Norte</b>	75,6	24,4	100,0	73,9	26,1	100,0
<b>Kwanza Sul</b>	66,0	34,0	100,0	64,6	35,4	100,0
<b>Malanje</b>	67,3	32,7	100,0	66,9	33,1	100,0
<b>Lunda-Norte</b>	92,8	7,2	100,0	93,6	6,4	100,0
<b>Lunda-Sul</b>	82,9	17,1	100,0	84,5	15,5	100,0
<b>Benguela</b>	56,1	43,9	100,0	56,6	43,4	100,0
<b>Huambo</b>	59,4	40,6	100,0	59,2	40,8	100,0
<b>Bié</b>	76,7	23,3	100,0	77,3	22,7	100,0
<b>Moxico</b>	69,4	30,6	100,0	70,0	30,0	100,0
<b>Kuando-Kubango</b>	69,4	30,6	100,0	72,4	27,6	100,0
<b>Namibe</b>	70,6	29,4	100,0	70,1	29,9	100,0
<b>Huíla</b>	62,2	37,8	100,0	62,1	37,9	100,0
<b>Cunene</b>	52,0	48,0	100,0	52,0	48,0	100,0



<b>Bengo</b>	79,4	20,6	100,0	76,8	23,2	100,0
<b>TOTAL</b>	<b>66,5</b>	<b>33,5</b>	100,0	<b>66,7</b>	33,3	100,0

**SOURCE:** MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

In 2008 proportions in terms of gender were the same even though they have a negative correlation. In average for the 18 provinces exist 70,8% men to 29,2 % women in public service. However this difference is more accentuated in some provinces as reported in previous tables (Tables nr). The distribution of employees per gender is presented below in summary.

#### DISTRIBUTION OF EMPLOYEES PER GENDER

Scope	2007	%	2008	%	Variation 2008/2007
<b>Men</b>	194.182	66,5	198.456	66,7	2,2
<b>Women</b>	97.815	33,5	99.115	33,3	1,3
<b>Total</b>	<b>291.997</b>	100,0	<b>297.571</b>	100,0	1,9

**SOURCE:** MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

Concerning the ambit (table nr) there was a negative variation (-0,3%) in numbers of employees for the central administration but in compensation there was an increase in numbers of employees for the local State Administration. of State (+2,2%)

#### DISTRIBUTION OF EMPLOYEES (PER SCOPE)

Scope	2.007	%	2.008	%	Variance 2008/2007
<b>Central</b>	32.528	11,1	32.424	10,9	-0,3
<b>Local</b>	259.469	88,9	265.147	89,1	2,2
<b>Total</b>	<b>291.997</b>	<b>100,0</b>	<b>297.571</b>	<b>100,0</b>	<b>1,9</b>

**SOURCE:** MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

This way of sectoral counting shows that is mainly the education with more prejudice in the final results. From 164.008 people working in this sector to 162.766 in 2008 which represents a negative variation of 0,8% but education is still the big one in numbers with (54,7%) per sector activity.<sup>78</sup>

<sup>78</sup> One of the reasons for this reduction might be related to the transferency of employees from the education sector to other with better salaries. The salary readjustment comprising specialists and administrative employees in the education sector previewed in the organic statute of non university

The sector of health and social service registered an indicative increase, having been created 6 thousand 816 new jobs in 2008 with a positive surplus (+35,3%) compared to 2007. the variations occurred between 2007 and 2008 are shown in the following table.

**DISTRIBUTION OF EMPLOYEES  
(PER SECTOR)**

Sector	2007	%	2008	%	Variation 2008/2007
Education	164.008	56,2	162.766	54,7	-0,8
Health	57.825	19,8	60.887	20,5	5,3
Justice	3.556	1,2	4.470	1,5	25,7
Other	66.608	22,8	69.448	23,3	4,3
<b>Total</b>	<b>291.997</b>	<b>100,0</b>	<b>297.571</b>	<b>100,0</b>	<b>1,9</b>

**SOURCE:** MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

The technical employees are concentrated in education sector with 54,7% followed by the health sector comprising 20,5% in 2008. The technical employees constituted in average 30,6% within the period of 2006/2008.<sup>79</sup>

**DISTRIBUTION OF EMPLOYEES PER CATEGORIES**

Sector	2007				2008			
	Technician	Non-Technician	Total	%	Technician	Non Technician	Total	%
Education	140.978	23.030	164.008	56,2	139.898	22.868	162.766	54,7

teachers, with career upgrading, may solve the problem of updating the categories in the whole country and, consequently, to allow better stabilization of employees within the sector.

<sup>79</sup> This discussion is deepen in the table “economy growth versus civil administration of the State” it is within this report in which the accumulated GDP variation, the number of civil employees and the technicians are related

<b>Base and average</b>	139.031	22.095	161.126		137.828	21.908	159.736	
<b>Higher</b>	1.947	935	2.882		2.070	960	3.030	
<b>Health</b>	39.558	18.267	57.825	19,8	41.378	19.509	60.887	20,46
<b>Justice</b>	2.603	953	3.556	1,2	3.267	1.203	4.470	1,5
<b>Other</b>	20.314	46.294	66.608	22,8	21.181	48.267	69.448	23,3
<b>Total</b>	<b>203.453</b>	<b>88.544</b>	<b>291.997</b>	<b>100,0</b>	<b>205.724</b>	<b>91.847</b>	<b>297.571</b>	<b>100,0</b>

**SOURCE:** MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

#### SUMMARY OF THE MAIN INDICATORS

<b>Indicators</b>	<b>2007</b>	<b>%</b>	<b>2008</b>	<b>%</b>	<b>Variation 2008/2007</b>
<b>Gender</b>					
<b>Men</b>	194.182	66,5	198.456	66,7	2,2
<b>Women</b>	97.815	33,5	99.115	33,3	1,3
<b>Ambit</b>					
<b>Central</b>	32.528	11,1	32.424	10,9	-0,3
<b>Local</b>	259.469	88,9	265.147	89,1	2,2
<b>Sector</b>					
Education	164.008	56,2	162.766	54,7	-0,8
Health	57.825	19,8	60.887	20,5	5,3
Justice	3.556	1,2	4.470	1,5	25,7
Other	66.608	22,8	69.448	23,3	4,3
<b>Province</b>					
Huambo	24.142	8,3	24.057	8,1	-0,4
Huíla	27.612	9,5	28.348	9,5	2,7
Luanda	73.908	25,3	73.491	24,7	-0,6
Benguela	33.974	11,6	31.763	10,7	-6,5
Other	132.361	45,3	139.912	47,0	5,7
<b>Employment in the Public Service</b>	<b>291.997</b>	<b>100,00</b>	<b>297.571</b>	<b>100,00</b>	<b>1,9</b>

**SOURCE:** MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

### *Qualification and training of the employees*

70 training sessions were implemented by the Public Service Institute and the National School for Administration. This training is made, among others, through seminars, workshops and conference aiming to improve competence at different level of the public service staff. This training has reduced in 2008 in number of training sessions (-47,8 %) and in number of participants (-39,5%). The privileged areas were of public management, juridical matters, and management of human resources, finance, accounting and training of trainers.

#### **TRAINING OF PUBLIC EMPLOYEES**

Designation			Var.2008/07
	2007	2008	
Training sessions implemented	134	70	-47,8
Participants in the training sessions	3467	2098	-39,5

SOURCE: MAPESS – Sectoral Report – Balance of the General Government Program 2007/ 2008

### **8.3.2.- Labour administration**

#### *Professional Training Centres and Training Sessions*

The policies for professional training aim to insert youth looking for the first job in the active life.

National training capacity<sup>80</sup> corresponds to training stages which have increased in 2008 to 117,6% for the installed capacity and 151,8% for the used. The capacity increasing corresponded to sessions of initial and continued training for active unemployed, employed and vulnerable groups through projects for equality in opportunities and capacity and competence increasing of the population.

This year, the approved candidates to participate in initial training course in the area of arts and crafts of level I, of the National System of Professional Training have got a subsidy of learning. This subvention include youth who wants to enter in the employment market after concluding the secondary school or high school of the educative system with a subsidy of Professional internship. The learning stipendium constitutes a stimulus for youth to learn a profession providing that they adhere to the

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<sup>80</sup> The professional training centres are public or private institutions with appropriate equipment and staff for training and professional rehabilitation, recycling, refreshments and professional reconversion.

training programs. The stipendium given for the Professional internship aims, among other objectives, insert candidates to the first employment in the working market giving them an opportunity for training in real working context and motivating at the same time companies to create new jobs vacancy through the co-partnership of the State in the expenses with the staff.

Within this articulation it is subjacent the Project of providing technical and financial support to institutions of the public and private sector and social partners who intend to develop the Professional training by agreements and protocols in conformity with the current legislation.

To highlight the construction of the Integrated Centre of Technological Training CINFOTEC with Professional capacity building solutions and technical and technological service aiming to support productive sectors and the national industry service. This centre of Excellence in terms of applied Technologies can give a greater impulse for capacity building at other training level, based on the needs of the market and securing a Professional training directed to the entrepreneurship sector giving access to a productive employment, qualified and useful from the social point of view.

This centre materializes the need of assistance to the demand of modernization of the professional centres with diversification of specialities, with adequate curriculum for the Professional profile suitable to the real needs of the market.

#### *Training capacity of the public and private centres*

The professional teaching system, discussed due to questions related to the lack of national identity and due to a curriculum which does not meet the real needs, represents a privileged space to incorporate changes which can make it suitable to the development standard and adequate to the educational system to this new order and also, to the capacity of training to take into account referred situations in growth, considering the technological changes, the regional and the market tendencies. The national system for professional training needs to be improved and the training level must be adapted to more employment attraction.

One of the difficulties of the Professional training system is to be able to articulate with the national teaching system in order to define the main pillar for training, for qualification and capacity building. Even if the professional training aims for specific training for the future labouring integration the academic education must guarantee a set of basic knowledge which stimulates the acquisition of fundamental competence for the future professionalization<sup>81</sup>.

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<sup>81</sup> According to a study of Ramon Oliveira (UFPE) one of the reasons for separating the secondary school from the Professional education is that those citizens living an unfavourably economic situation will come across with the question: to be in the secondary school and wait to acquire a certificate or, immediately acquire professional certifications which allow them to straggle for a vacancy in the working market?

The actors of the national system for professional training are public and private with specific competencies who integrate within them, under the coordination of the National Institute for Employment and Professional Training. From the public are counted those under the responsibility of INEFOP and those under the orientation of different Ministries among them the Ministry of Fishery, Public Construction and Industry which guide the courses from the technical point of view.

This centres aim to administer initial professional training for youth and adult as well as continued training related to the specialization of the active population.

It is at the level of continued training and the service sector in which, currently, are developed actions from the private centres which are operating more in training and qualifying active employees. These are, largely, concentrated in Luanda (144) and Benguela (34). According to Christian Kingombe<sup>82</sup> the government can control better the quality of training implemented by private centres making regular inquiries to the existing competence in the working market and planning those competence which will be needed in the future.

#### NATIONAL TRAINING CAPACITY

YEARS	Training Capacity	
	Installed	2007/2008
2007	27.809	117,61
2008	60.516	

SOURCE: INEFOP – Report of Activities Balance – 2007 and 2008

#### *Network of Centres and Training Actions implemented in Public and Private centres in 2008*

#### NETWORK OF CENTERS OF PROFESSIONAL TRAINING

PUBLIC					Private Centres	Total
Province	INEFOP			Other Institutions		
	C.F.P	Mobil Centres	Pavilion			
Luanda	12	6	12	12	144	186
Bengo	2	3	4		2	11
Benguela	2	3	5	4	34	48

<sup>82</sup> Perceptions nr 61, © OCDE 2008, evaluate the effect of Professional Training in África

<b>Bié</b>	1	2	2		1	6
<b>Cabinda</b>	2		3	1	4	10
<b>Cunene</b>	1		2		5	8
<b>Huambo</b>		2	3	2	14	21
<b>Huíla</b>	1	2	3	1	7	14
<b>K. Norte</b>	4	1	2	1	3	11
<b>K.Sul</b>	1	2	3		5	11
<b>K.Kubango</b>	1		2		2	5
<b>L. Norte</b>	1	6				7
<b>L. Sul</b>	2	1	1	1	2	7
<b>Malanje</b>	1	1	2	1	4	9
<b>Moxico</b>	1	1	2	1	3	8
<b>Namibe</b>	4		3	2	7	16
<b>Uíje</b>	1	1	3		5	10
<b>Zaire</b>	1	3	3		6	13
<b>Total</b>	<b>38</b>	<b>34</b>	<b>55</b>	<b>26</b>	<b>248</b>	<b>401</b>

**SOURCE:** INEFOP – Report of Activities Balance – 2007 and 2008

There are 401 public and private centres all over the country highlighting the Luanda Province with 186 and Benguela with 48.

The training activity from INEFOP, the public institution responsible for the professional training is implemented by the 38 professional centres, 34 of mobile centres and 55 pavilions for arts and crafts. In 2007 there were 32 settled centres, 10 mobile centres and 16 pavilions.

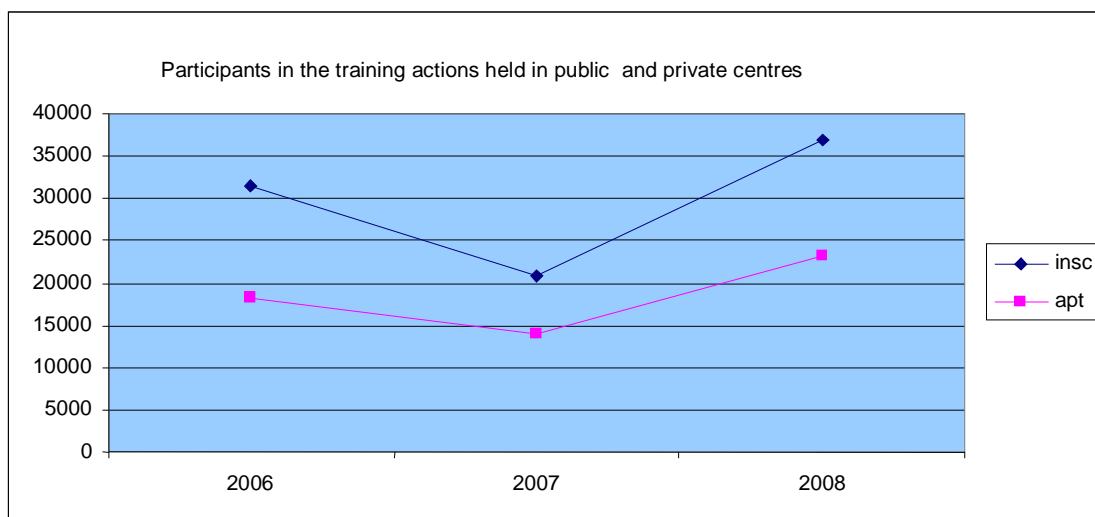
The training sessions had 36813 registered in 2008 from which 23254 passed (66%), 1160 failed (4,7%), 3464 gave up (9,8 %) and 6860 (19,5 %) are still in training.

**TRAINING ACTIONS IMPLEMENTED IN PUBLIC AND PRIVATE CENTERS**

Province	REGISTERED			ENROLLED			PASSED			FAILED			GAVE UP			IN TRAINING		
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T
<b>Luanda</b>	17115	7273	24388	6323	2910	9233	3775	1547	5322	239	109	348	579	323	902	1731	930	2661
<b>Bié</b>	427	118	545	427	118	545	175	38	213							252	80	332
<b>Bengo</b>	739	137	876	739	137	876	534	73	607	9	8	17	89	33	122	107	23	130
<b>Benguela</b>	4163	2177	6340	3052	1856	4908	2121	1522	3643	57	76	133	143	102	245	731	156	887
<b>Cabinda</b>	949	580	1529	949	580	1529	508	379	887	57	19	76	101	63	164	283	119	402
<b>Cunene</b>	977	315	1292	944	310	1254	367	191	558	36	22	58	160	37	197	377	64	441
<b>Huambo</b>	1963	1408	3371	1791	1388	3179	1510	1143	2653	184	161	345	97	84	181			
<b>Huíla</b>	711	572	1283	711	572	1283	636	560	1196	75	12	87						
<b>Lunda Sul</b>	800	130	930	800	130	930	559	94	653	12		12	103	15	118	126	21	147

<b>Lunda Norte</b>																		
<b>Malanje</b>	459	89	548	459	89	548	279	58	337	22	4	26	88	26	114	70	1	71
<b>Moxico</b>	1600	556	2156	1476	543	2019	1152	391	1543	106	44	150	198	108	306	20		20
<b>Namibe</b>	904	458	1362	904	458	1362	570	345	915	45	12	57	77	39	116	214	60	274
<b>Kwanza Norte</b>	1779	568	2347	1381	499	1880	914	356	1270	50	36	86	421	103	524			
<b>Kwanza Sul</b>	2350	986	3336	2350	985	3335	1296	789	2085	149	13	162	123	25	148	782	158	940
<b>K. Kubango</b>																		
<b>Uíje</b>	949	334	1283	949	320	1269	504	203	707	36	13	49	131	49	180	278	55	333
<b>Zaire</b>	928	160	1088	928	160	1088	551	114	665	53	1	54	133	14	147	194	28	222
<b>TOTAL</b>	36813	15861	52674	24183	11055	35238	15451	7803	23254	1130	530	1660	2443	1021	3464	5165	1695	6860

The objective of these courses is to provide the citizens with lower academic level and without qualification living in peripheral zone and locations of the 18 province, opportunities for Professional integration and participation, equipping them with elementary abilities and techniques which enable them a quick integration in the working market.



### *Employment Centres*

To revitalize the employment centres in its geographical extension is a must due to the new challenges of the economy. There are no statistics about the number of unemployed people looking for employment neither the proportion of those who are not registered in the employment centres. The number of registered has been growing but still far to reach the expected. According to opinions of some interviewed many did not contact the centres, some go directly to the employer and other ask people they know about any job.

### *General Characteristics of the employment market*

These characteristics report the performance of the National Employment Service in relation to the registration and control of the Employment Market movement.



Employment request: total number of people with 14 years of age or more than 14 registered in the Employment Centres to get a job on somebody else's behalf.

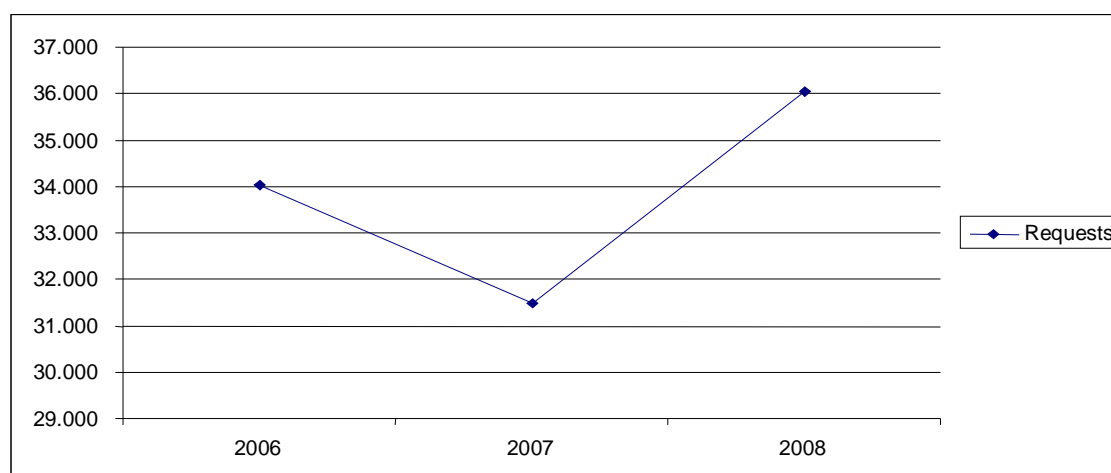
Employment opportunities: available employments announced by employers to the Employment Centres.

Positions: employment offers satisfied with candidates presented by the Employment Centres.

### *Requests*

During 2008 36040 employment requests were registered by the Employment Centres corresponding to an increase in demand of (+14,5 %) compared to 2007 but with an increasing tendency in number of requests during the period in analysis. Still, these improvements hide different factors, the fact of being information collected using a face to face method and the absence of a network of employment centres all over the country implicates that within the database of information collected only the places where there are employment centres are referred here such as the capital of provinces and municipalities.

It is needed to add the fact that there are people who do not know about the existence of the Centres and also the multiple opportunities of employment they offer. As a negative factor there is the deficient publicity of this kind of service to the population.



**F SOURCE:** INEFOP – Report of Activities Balance – 2006, 2007 and 2008

Characterizing the demand data available reveal that 5.918 women (16,4%) and 30.122 men (83,6%). Mostly, the candidates were between 20-26 years of age (29%) and have completed the 8th grade (29,5%). By categories, 40,4 % corresponded to the 1<sup>st</sup> employment, 31,2% to the new employment and 18,7 % to the category of employed. The demand for the first employment and the new employment has a high representativeness which may be caused by the training these employees have benefited sustained by the movement of reviving the economy present in different programs and training projects implemented by the government. Unemployed with no academic qualification represent 3,1% of the candidates and those who have finished the secondary

school represent 96,4% and those with a university degree represent only 0,5% which means that the last class uses the centres for employment marginally.

The next is a comparative table between the active population, the employed population and the population looking for job.<sup>83</sup>

**COMPARISON BETWEEN THE ACTIVE POPULATION, THE EMPLOYED POPULATION AND THE POPULATION  
LOOKING FOR JOB**

Years	Active Population	Employed Population	Population looking for Employment
<b>2006</b>	8312696	5642170	34025
<b>2007</b>	8553764	6385414	31472
<b>2008</b>	8801824	6695323	36040

**SOURCES:** Ministry of Planning (Report about the economy behaviour in 2004 and 2005, Reports about the Implementation Balance of the General Program of the Government (2006, 2007, 2008).

Although there has been a considerable increasing of working demand in the employment centres – improving during 2007 and 2008 14,5% become visible the rate of 49,4% of youth aged between 21 and 30 years registered as looking for Job. This percentage presented in absolute numbers corresponds to 17804 youngsters.

The unemployment rate in Angola is still high, around 25% of the population economically active. In absolute numbers it corresponded to more than 2,1 million people in 2008. The people's living conditions worsen but the fact that around four million Angolan do not have any Professional skill thickening the employment statistics. The following table in which the summary of demand is made indicates this reality.<sup>84</sup>

Unemployed are not simply those who do not have any technical qualification. The high schools and the centres for Professional training prepare people with different Professional skills. But most of them simply increase the number of unemployed people and for these cases the informal market is very often the option. Women represent a minor part of the working demand due to the fact that they are operating within informal activities.

**SUMMARY OF DEMAND**

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<sup>83</sup> It is urgent to have statistic about employment beside those registered by the employment centers otherwise the policies will not be comprehensive enough or not meet the reality about this phenomena.

<sup>84</sup> It depends from the State to secure the training of youth and employees without job, promoting training in companies and other institutions and to start the investigation in Professional training area.

2008		%
Demand	36040	100
<b>Gender</b>		
M	30122	83,6
F	5918	16,4
<b>Age Group</b>		
14-20	7005	19,4
21-25	10445	29,0
25-30	7356	20,4
31-35	4975	13,8
36-40	2743	7,6
41-45	1807	5
46-50	992	2,8
51-55	464	1,3
55-60	199	0,6
>61	54	0,1
<b>Academic level</b>		
No/school	1124	3,1
From 1 <sup>st</sup> to 4 <sup>th</sup> class	8157	22,6
5 <sup>th</sup> to 6 <sup>th</sup> class	10558	29,3
7 <sup>th</sup> to 8 <sup>th</sup>	10615	29,5
Secondary School	5410	15
High School	176	0,5
<b>Situation in relation with employment</b>		
Cat 1	14545	40,4
Cat 2	11252	31,2
Cat 3	6736	18,7
Cat 4	2665	7,4
Cat 5	798	2,2
Cat 6	44	0,1

**SOURCE:** INEFOP – Report of Activities Balance 2008

By province, Benguela 19%, Luanda 14,8 %, Zaire 9,1 %, K. Norte 9 %, Huila 6,8 % and Huambo 6,7 % have received most of the requests for work.

#### GEOGRAPHICAL DISTRIBUTION OF DEMAND

Province	Requests					
	2006	%	2007	%	2008	%
Cabinda	3081	9,1	933	3,0	1895	5,3
Zaire	910	2,7	2959	9,4	3284	9,1
Uíje	253	0,7	249	0,8	149	0,4
Luanda	3025	8,9	4213	13,4	5338	14,8
Kwanza Norte	2005	5,9	2701	8,6	2859	7,9
Kwanza Sul	2527	7,4	3628	11,5	814	2,3
Malanje	753	2,2	520	1,7	1847	5,1
Lunda Norte	753	2,2	743	2,4	690	1,9
Benguela	5942	17,5	5337	17,0	6837	19,0
Moxico	855	2,5	924	2,9	1313	3,6
Kwando Kubango	1997	5,9	1080	3,4	586	1,6
Huambo	3583	10,5	2358	7,5	2398	6,7
Bié	292	0,9	95	0,3	320	0,9
Namibe	846	2,5	837	2,7	1332	3,7
Huíla	736	2,2	2459	7,8	2468	6,8
Kunene	3953	11,6	238	0,8	1408	3,9
Lunda Sul	728	2,1	1337	4,2	976	2,7
Bengo	1786	5,2	861	2,7	1526	4,2
<b>TOTAL</b>	<b>34025</b>	<b>100,0</b>	<b>31472</b>	<b>100,0</b>	<b>36040</b>	<b>100,0</b>

SOURCE: INEFOP – Report of Activities Balance 2006, 2007 and 2008

#### *Supply*

The employment supply received during 2008 totalize 14.558 which means 4.494 more compared to last year (+44,7%) and more 1.776 offers compared to 2006 (+21,4 %). The employment supply were more significant in the secondary level with 62,9%, 31,8% in the tertiary sector and 4,4% in the primary sector. Every province has received employment supply with more incidences in province such as Benguela (17%), Luanda

(15,3%), Malanje (12,3%), Kwanza Norte (8,2%), Huíla (5,9%) and Cabinda (5,1%). The ascendant behaviour of employment supply is the same registered in 2006 but it is important to stress that the period in reference is better in relation to the amount of offers received during 2006-2008.

#### GEOGRAPHICAL DISTRIBUTION OF SUPPLY

Province	Offers			
	2007	%	2008	%
Cabinda	326	3,2	745	5,1
Zaire	920	9,1	539	3,7
Uíje	197	2,0	113	0,8
Luanda	1.286	12,8	2222	15,3
Kwanza Norte	745	7,4	1189	8,2
Kwanza Sul	481	4,8	348	2,4
Malanje	439	4,4	1787	12,3
Lunda Norte	743	7,4	690	4,7
Benguela	2452	24,4	2472	17,0
Moxico	216	2,1	600	4,1
Kwando Kubango	78	0,8	395	2,7
Huambo	680	6,8	506	3,5
Bié	95	0,9	320	2,2
Namibe	451	4,5	249	1,7
Huíla	423	4,2	855	5,9
Kunene	85	0,8	584	4,0
Lunda Sul	292	2,9	255	1,8
Bengo	155	1,5	689	4,7
<b>TOTAL</b>	<b>10.064</b>	<b>100</b>	<b>14.558</b>	<b>100</b>

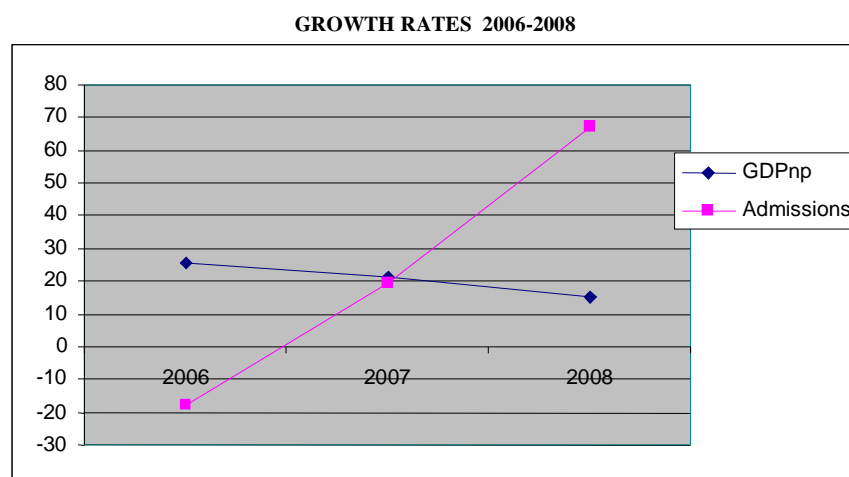
SOURCE: INEFOP – Report of Activities Balance 2007 and 2008

Analyzing the supplies by province, we must highlight some indicators which deserve attention namely the increase of employment supply in Luanda, which contradicts the need of de-concentration of activities and population, the expressive increase of offer in Malanje (signs of entrepreneurship activities probably) the decrease of 7 percent in Benguela and 3 percent in Huambo, a fact which contradicts in relation to the current growth registered in these two province.

### **Admissions**

Admissions made by the employment centres during 2008 correspond to 13.260 which are 67,7 % more than in 2007.

If we relate the non-oil GDP growth rate with the variation rate of admissions we verify that its oscillations contradict the GDP behaviour, much more stable during the period of 2006/2008. This induces us to conclude that the variation is related only to a part of the market, related to the class of population controlled by the employment centres.



From the group of admitted people 12,6 % are women and 87,4 % are men. There are no information available related to the academic degree referred to gender. The distribution of admission was as follow: 68,7% for the secondary sector, 26,5 % for the tertiary sector and 4,8% for the primary sector. The distribution by province had the following picture Benguela 16,5 %, Malanje 13,4 %, Luanda 11,1 %, K. Norte 9 %, Huíla 5,6 % and Cabinda 5,3 %.

### **GEOGRAPHICAL DISTRIBUTION OF ADMISSIONS**

Province	Admissions			
	2007	%	2008	%
Cabinda	283	3,6	702	5,3
Zaire	920	11,6	539	4,1
Uíje	197	2,5	113	0,9

<b>Luanda</b>	924	11,6	1473	11,1
<b>K. Norte</b>	745	9,4	1189	9,0
<b>K. Sul</b>	283	3,6	348	2,6
<b>Malanje</b>	439	5,5	1779	13,4
<b>L. Norte</b>	743	9,4	690	5,2
<b>Benguela</b>	1082	13,6	2190	16,5
<b>Moxico</b>	216	2,7	600	4,5
<b>K. Kubango</b>	78	1,0	395	3,0
<b>Huambo</b>	591	7,4	505	3,8
<b>Bié</b>	95	1,2	320	2,4
<b>Namibe</b>	451	5,7	249	1,9
<b>Huíla</b>	363	4,6	740	5,6
<b>Kunene</b>	84	1,1	584	4,4
<b>L. Sul</b>	292	3,7	155	1,2
<b>Bengo</b>	155	2,0	689	5,2
<b>TOTAL</b>	<b>7941</b>	<b>100,0</b>	<b>13260</b>	<b>100,0</b>

SOURCE: INEFOP – Report of Activities Balance 2007 and 2008

#### *Relation demand/Supply*

Present supplies do not meet the demand which the relation was 147,6%. The ratio of admission/supplies was 91,1 %. Comparing the ratio of admissions to the ratio of supplies within the last three years we conclude that it is a higher volume of unemployed people admitted. There was, therefore, a different behaviour of this variable which registered a decrease of 8,1% from 2005 to 2006. The ratio admission/demand is facing problems in adjusting the employment needs, economic capacity of creating them and Professional qualifications required. These facts can prevent the provision of certain supplies. The number of admitted was 13.260 and the general view present the following table.

#### **GENERAL CHARACTERISTICS OF THE EMPLOYMENT MARKET IN ANGOLA**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Demand for employment (requests)</b>	34.025	31.472	36.040
<b>Employment supply</b>	8.288	10.064	14.558
<b>Admissions</b>	6.642	7.941	13.260
<b>RATIO</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>

<b>Demand/supply</b>	310,5	212,7	147,6
<b>Admission/supply</b>	80,1	78,9	91,1
<b>Admission/demand</b>	19,5	25,2	36,8
<b>VARIATION RATE</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Demand</b>	16,0	-7,5	14,5
<b>Employment supply</b>	-8,1	21,4	44,7
<b>Admissions</b>	-17,9	19,6	67,0

**SOURCE:** INEFOP – Report of Activities Balance 2006, 2007 and 2008

A promising perspective for service delivery comes from the unity of intermediation of workers, UIMO. It is operating from SIAC and it proposes as objective to insert assets in the market through optimizing the relationship between supply and demand for work which can improve the level of employment. Besides the functioning of the employment centres in this area of service, UIMO can provide improvements in the process derived from crossing information about supplies and demand through an integrated vision, facilitated by an automat zed system of information of employers and workers.

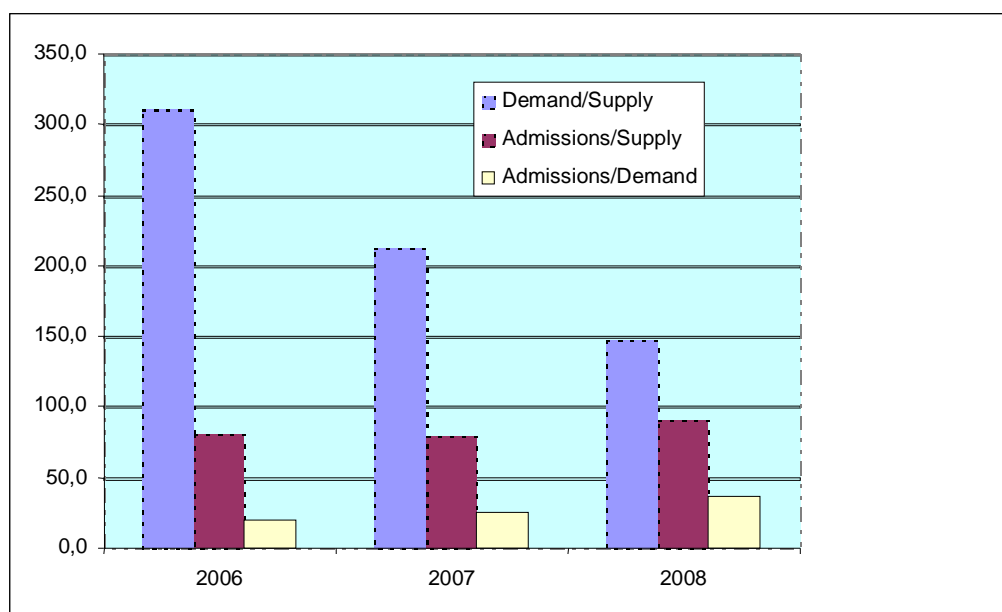
Another element of difference is the service providing recurring to assistance possibilities which besides the presence use modern methods for publicity and communication such as *website*, *sms* and *call centre*. From this procedure may result the improvement of collecting and selection of statistic information about the employment market, professional training and improve the following up mechanisms and evaluation of workers. That unity comprises other services optimizing the relationship between employees and companies namely the registration of the employees, vacancies, intermediation with companies and orientation for professional qualification. These procedures will make possible the conscience of the dynamic of the offers and admissions in the working market, consenting adjustments and allowing a higher level of effectiveness in covering vacancies in the market.

The new technologies add new ways of communication and interactivity in the relations with higher velocity of storing information and new opportunities for employees and employers.

This unity targeting the working market may constitute one of the conditions to achieve better capacities and develop plans for testing workers in the curriculum conception and guarantee of the needed installations.

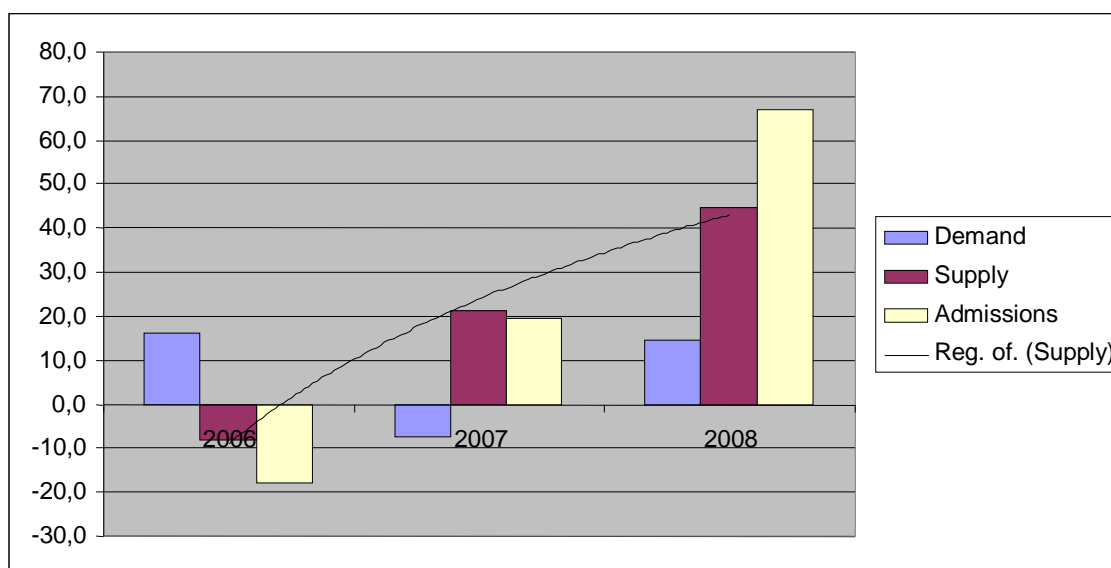


### RATIO



**SOURCE:** INEFOP – Report of Activities Balance 2006, 2007 and 2008

### GROWTH RATE



**SOURCE:** INEFOP – Report of Activities Balance 2006, 2007 and 2008

It is worth to mention the crescent tendency line of the supply side since 2007. This line reveals greater ability of crossing in market relationship between the demand and supply, a greater capacity of the economy to generate jobs and the public policies for employment implemented by the Government, concentrated in the implementation of programs which aim to acquire professional competence among other factors.

### ***Employment Market***

The employment in the economy in 2008 corresponded to 6,7 million jobs. The Agriculture sector was the most expressive with 82% of the total employment. This representativeness was the same in 2006-2008. Within this period of time agriculture (83,3 %) market service (4,3 %) and construction (3,6 %) were the sectors that contributed the most for employment. The institutional sector generated, in average, during 2006-2008 4,6 % of the total employment in the economy.

The reconstruction process and rehabilitation of infrastructures comprises currently 200 thousand people, employed in different involved companies. The variation of the number of employees within this sector was 15,8 % during 2006-2008 within the involved companies. The variation in number of employees in that sector is 13, 5 % from 2007 to 2008. The market service sector was, also, responsible for a positive variation of 58% with that period.

The variation of the employment volume during 2006-2008 was positive with a variation of 18,4%.

### **EMPLOYMENT MARKET IN THE ECONOMY**

	2006				2007				2008				Variance	
	Private	Instituc.	Total	%	Private	Instituc.	Total	%	Private	Instituci.	Total	%	2007/2006	2008/2007
<b>Agricult</b>	4781352		4781352	84,7			5285802	82,8	5491295		5491295	82,0	10,6	3,9
<b>Fishery</b>	46444		46444	0,8			159335	2,5	164434		164434	2,5	243,1	3,2
<b>Oil</b>	12616	227	12843	0,2	16348	234	16582	0,3	15178	260	15438	0,2	29,1	-6,9
<b>Diamond</b>	15654		15654	0,3	16248	189	16437	0,3	16589	265	16854	0,3	5,0	2,5
<b>Other Extract</b>	26135		26135	0,5			26135	0,4	26684	0	26684	0,4	0,0	2,1
<b>Energy/Water</b>			0	0,0	2345	123	2468	0,0	2345	132	2477	0,0		0,4
<b>Industr. Transf</b>	37261		37261	0,7	39791	265	40056	0,6	42214	270	42484	0,6	7,5	6,1
<b>Constr</b>	206521	204	206725	3,7	213717	243	213960	3,4	240117	248	240365	3,6	3,5	12,3
<b>Market Service</b>	202002		202002	3,6	276168	278	276446	4,3	334551	283	334834	5,0	36,9	21,1
<b>Social Sectors</b>	16657		16657	0,3	17000		17000	0,3	18700		18700	0,3		10,0
<b>Instituc.Sect</b>		261113	261113	4,6		290665	290665	4,6		296113	296113	4,4	11,1	1,9
<b>Others</b>	35984		35984	0,6	40528		40528	0,6	45645		45645	0,7	12,6	12,6
<b>Total</b>	<b>5380626</b>	<b>261544</b>	<b>5642170</b>	<b>100,0</b>	<b>622145</b>	<b>291997</b>	<b>6385414</b>	<b>100,0</b>	<b>6397752</b>	<b>297571</b>	<b>6695323</b>	<b>100,0</b>	<b>13,5</b>	<b>4,9</b>

**SOURCE:** Balance Values PGG of 2005, 2006 and 2007 corrected by CEIC.

## 9.- INFLATION AND LIVING CONDITION

### 9.1.- Previous remarks

The knowledge about the price behaviour in any economy is essential for public policies which incorporates capable measures to control the inflation and keep the purchasing power of income at compatible level with the expectation of the citizens.

The stability of economies is measured by the interval of the price variation with an accepted conventional norm the interval 1,5%-2,5%. Meaning an economy where the annual inflation rate is corresponds to the interval mentioned above is a stable one from which are expected concrete results in terms of economic growth, increase of employment and improvement of conditions and well being of the population.

However, the limit of 2,5% for the maximum variation of the general index of prices has to take into account the real conditions of the country. In countries where the economic and social structures are in readjustment – in the sequence of armed conflict

situation, for example – and which are confronted with profound market institutional reform processes, adaptation in prices end up being more expressive and long lasting. Or, it takes more time to control the inflation within the economic and social acceptable limits.

The monetary thesis underline that inflation is always and in any place a monetary phenomenon meaning it is in the contradiction between the aggregate demand and supply where the essential cause for increasing the price will be found. They are controversial thesis, although the economic stability is made by the right management of the monetary aggregates.

It has been very difficult to push inflation to one digit since the accumulated annual inflation rate reduced from 105,6% in 2002 to 18,5% in 2005. It was the biggest percentual reduction achieved (more than 87 percent). Between 2005 and 2007 the punctual contraction was only 6,7. The goal of 10% established by the Government since 2006 has been successively postponed.

The explanation about inflation is to consider it as a phenomenon with different components: inflation by the production costs, inflation by non-adjustment between the supply and demand, inflation derived from the monetary financing of the fiscal deficit and investment and inflation imported.

Since 2004 the State Budgetary Implementation has been presenting surplus (1,1%, 8,5%, 9,9%, 11,3% and 8,8% respectively for 2004, 2005, 2006, 2007 and 2008) occurring, consequently, a financing of the monetary policy by the fiscal policy.

The dynamic of the economic growth since 2003 has been very intense overstepping the positive effects derived from the restrictive nature of the budgetary and monetary policies. The high rates of unemployment - inducing less capacity of salaries rates adjustment – have not been enough to contradict the pressure on prices derived from the economic growth. The rate of interests – the instrument by excellence, for keeping the inflation within the desired limits – have been pressed downward due to amount of savings existing in the banks, by external financers and by the needs for the national economic growth. It will be said that the confrontation between the objective of the economic growth and inflation, the first has been receiving more attention and preference from the public decision makers.

The world inflation rate in 2008 was around 3,5% as result of price's increasing of oil and food *commodities*. The imported component of final direct consumption of goods is 55% of the total imports of merchandise from which we can deduce by a relative reasonable duty of imported inflation.

The production costs have been relatively high as consequence of sectoral, the congestion of harbours, lack of regularity in providing water and electricity, high prices of inputs, bureaucracy, low productivity, weakness of internal system for commerce and distribution of merchandise, etc.

## 9.2.- The inflation behaviour in 2008

Similar to 2006 and 2007, in 2008 the high level was kept, two of the components of final internal demand, the public investment and private investment (see chapter 6). As a result of increment in the liquid creation of jobs (around 309000) and the moderated improvement of salaries, equally, a reasonable growth (see chapter 6).

Is still delaying the answer of domestic offer to the needs of growth and the families' demand did not pressure the prices because the imports from the dollar zone – made it cheaper due to the depreciation of the national currency – completed the total of supply in the vacuum not covered by the internal production<sup>85</sup>.

In 2008 the inclination tendency of the general index of prices – which as stable since 1999 (the inflation rate in 1999 was 329% and 2007 about 11,8% ) – changed and the inflation index was 13,2%. Any way, the tendency in long term is still decreasing expressively and the inflation growth in 2008 can represent an insignificant part of the increasing process, restructuring and reform of the national economy. Everything will depend on the relative duty of the internal situation (subject, still, to various structural problems preventing more expressive gain on the way to deflation) and external (the fear of price deflation is very concrete in the more advanced economies).

From the point of view of monetary policy, the probable depreciation of kwanza in 2009 will unleash a certain pressure on prices which may not be sufficiently compensated by the world deflation and the internal offer of goods and services.

However, the following factors will be in favour of a more controlled inflation:

- (a) The rate of unemployment is still to high having allowed - in spite of certain pressure of demand of worker by the companies – to keep in non inflationary level the salaries of the different working markets;
- (b) A higher monetary control (growth rates M1 and M2 were 74,8% and 6% respectively)<sup>86</sup>;
- (c) The average income of the population continued low – although the GDP per inhabitant had increased, the major part of the population was still poor and very poor and the inequality in the distribution of income got worse (the increment of GDP per inhabitant occurred with less updates in public expenses in health, education and transference as pension bonds, retirement and family allowances<sup>87</sup>);

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<sup>85</sup> The imports of merchandise increased 50,5% in 2007 and 94,3% in 2008 despite the depreciation of kwanza in relation to euro.

<sup>86</sup> One of the reasons of not achieving the goal of 10% established by the government for inflation might be here. If the monetary control would have been kept in restrictive level, probably the inflation tax would be inferior to 13,2%. But the expansion of production would be resented of a greater monetary contraction.

<sup>87</sup> The percentual values (PIB as reference) were for education 3,3%, 3%, 3%, 2,8%, 2,2%, 2,4%, 2,9% and 2,7%, respectively for 2001, 2002, 2003, 2004, 2005, 2006, 2007 and 2008. for health the behavior for the

- (d) Also, the private average level of consumption per capita is, still, relatively low (about 1080 dollars in 2008) and its growth was not more than 10% in real terms;
- (e) The Chinese-effect on the national economy has been seen by a decompression on the aggregate demand allowed by high coefficient of the Chinese financing imports (70% in contract but in practice can be higher due to the internal weak capacity of response);
- (f) the oil effect on the GDP per inhabitant which increased 37,2% in 2007 to 2008; if this increment derived, essentially, from the increase of the relative duty of the non oil economy the pressure to the aggregate demand would be higher in a situation of relative less supply;
- (g) the increase of internal supply of goods and services thanks to the growth of agriculture, transformation industry and imports (made cheaper due to the kwanza bill of rate appreciation);
- (h) The curve of the internal aggregate supply continues to present, meanwhile, an elasticity income-price inferior to the unity.

The degree of inclination of the deflation curve has been lessening since 2004 – according to data of the following table – confirming the influence of some restructuring factors of the national economy such as the lack of infrastructures, sectoral disarticulation, the excess of bureaucracy, etc. therefore the goal of 10% was exceeded in 3,2 percent.

The inflation rate was 13,2% in 2008 may be in liaison with the economic growth and some deficiencies the productive system but incompatible with the objective of improving the competition in agriculture and industry in defence of the bill of rate stability<sup>88</sup>.

**MONTHLY INFLATION RATES (%)**

MONTHS	2003	2004	2005	2006	2007	2008
January	6,98	3,07	1,94	0,83	0,82	0,85
February	7,68	2,93	2,04	0,71	0,86	0,86
March	5,63	2,16	1,96	0,79	0,8	0,72
April	7,32	2,38	1,43	0,85	0,78	0,92

same years was 2,8%, 2%, 2,3%, 1,8%, 1,5%, 2%, 1,8% and 1,8%. These ciphers are part of the IMF document titled “*Angola – Selected Issues and Statistical Appendix*”, July 2006, for 2001 to 2003. for the rest the base was the calculation from CEIC having as reference the financial implementation of State for 2007 and 2008.

<sup>88</sup> “the dogma of bill of rate would be more defensible if we had an inflation tax of the first world, between 3 to 5%. Or, will be unacceptable an adjustment of the Exchange rate before the crisis situation in the world economy ....”, José Cerqueira, interview to *Semanário Expansão* 30<sup>th</sup> of April 2009.

<b>May</b>	5,23	4,49	1,29	0,81	0,88	1,02
<b>June</b>	5,37	1,96	1,01	0,77	0,79	1,00
<b>July</b>	3,97	1,45	1,13	0,91	0,95	1,16
<b>August</b>	5,04	1,60	1,15	0,80	0,78	1,03
<b>September</b>	2,75	1,55	1,09	0,84	0,75	0,86
<b>October</b>	1,50	1,56	0,97	0,87	0,81	1,08
<b>November</b>	2,35	1,89	1,19	1,43	1,06	1,16
<b>December</b>	4,60	2,32	1,93	1,97	1,92	1,78
<b>Annual inflation rate</b>	<b>76,56</b>	<b>31,01</b>	<b>18,53</b>	<b>12,21</b>	<b>11,79</b>	<b>13,17</b>
<b>Monthly average rate</b>	<b>4,85</b>	<b>2,28</b>	<b>1,71</b>	<b>1,16</b>	<b>0,93</b>	<b>1,04</b>
<b>Rhythm of deflation (%)</b>	<b>-28,4</b>	<b>-59,5</b>	<b>-40,2</b>	<b>-34,1</b>	<b>-3,4</b>	<b>+11,7</b>

SOURCE: INE – Monthly indexes of inflation.

The rhythms of deflation in the economy are reducing while the general inflation rate accommodates in lower and lower values.

The year 2008 represents, according to what was underlined previously, an episode with the long process of reducing inflation in Angola.

It was from 2001 when the sustainable process of deflation of the economy started: from an annual accumulated inflation rate of 268,35% in 2000 to values successively low 116,07% in the following year, 105,59 in 2002, 76,56% in 2003, 31,01% in 2004, 18,53% in 2005, 12,21% in 2006 e 11,79% in 2007.

#### INFLATION BEHAVIOUR IN ANGOLA

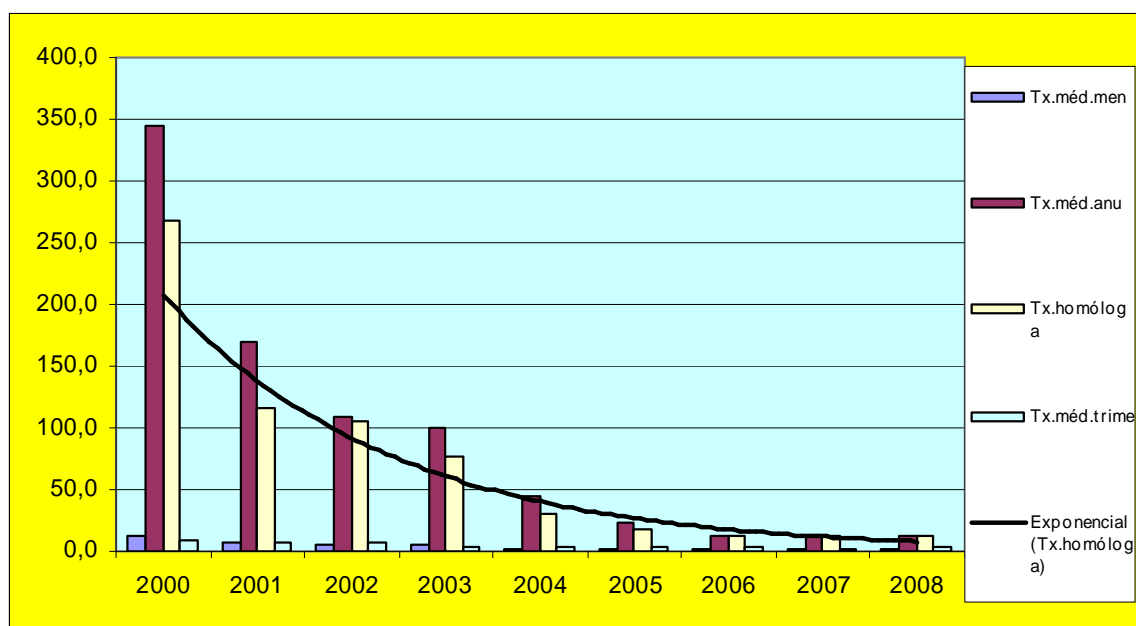
<b>YEARS</b>	<b>Inflation rate Monthly average</b>	<b>Annual inflation average</b>	<b>Homologous Inflation</b>	<b>Diversión Standard</b>
<b>2002</b>	6,20	109,32	105,59	1,46
<b>2003</b>	4,85	100,19	76,56	1,96
<b>2004</b>	2,28	45,31	31,01	1,34
<b>2005</b>	1,43	23,24	18,53	0,80
<b>2006</b>	0,97	13,37	12,21	0,65
<b>2007</b>	0,93	12,34	11,79	0,53

2008	1,04	12,46	13,17	0,55
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**SOURCE:** Estimates CEIC Macroeconomics Team, based on values of IPC, INE.

Graphically it is better perceived the intensity of lessening the variation of prices in Angola, measured by the Index of Prices in Consumer in the City of Luanda.

#### DEFLATION PROCESS IN ANGOLA



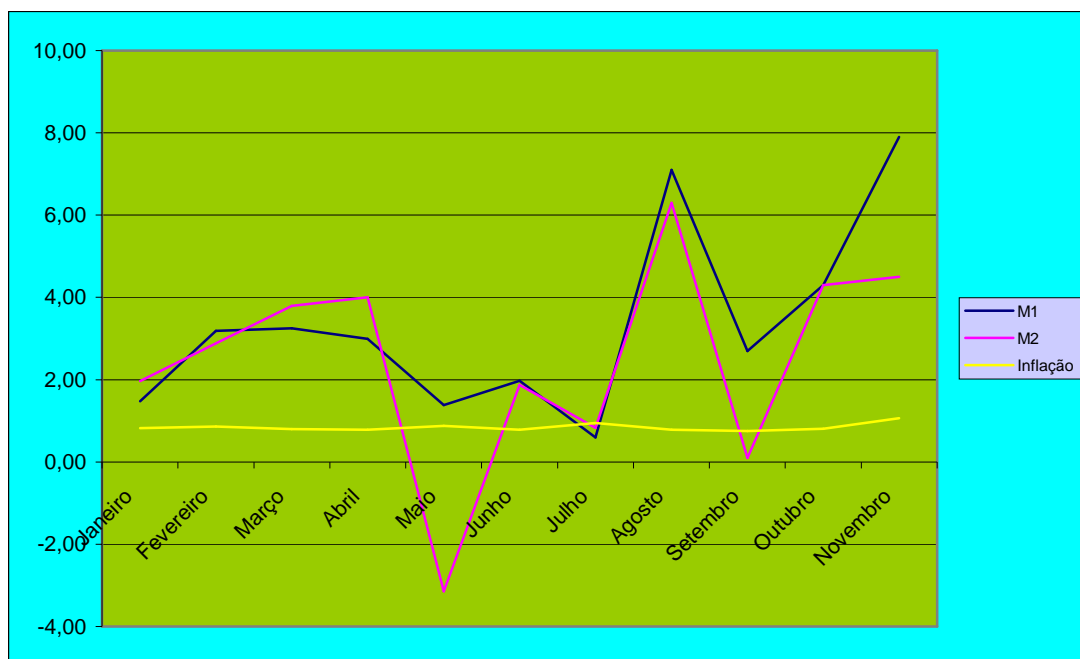
**SOURCE:** Estimates of the CEIC Macroeconomics Team. Based on data of the IPC, INE.

Comparing inflation with the behaviour of some economic variables correlated is observed that the monetary aggregate and bill of rate do not have the same influence as before, proved by different studies made by national and foreign institutions. It seems that after implemented the model of deflation centred in sterilization *ex-ante* of oil fiscal revenues the general variation of prices started to depend more from real variables of the economic system.



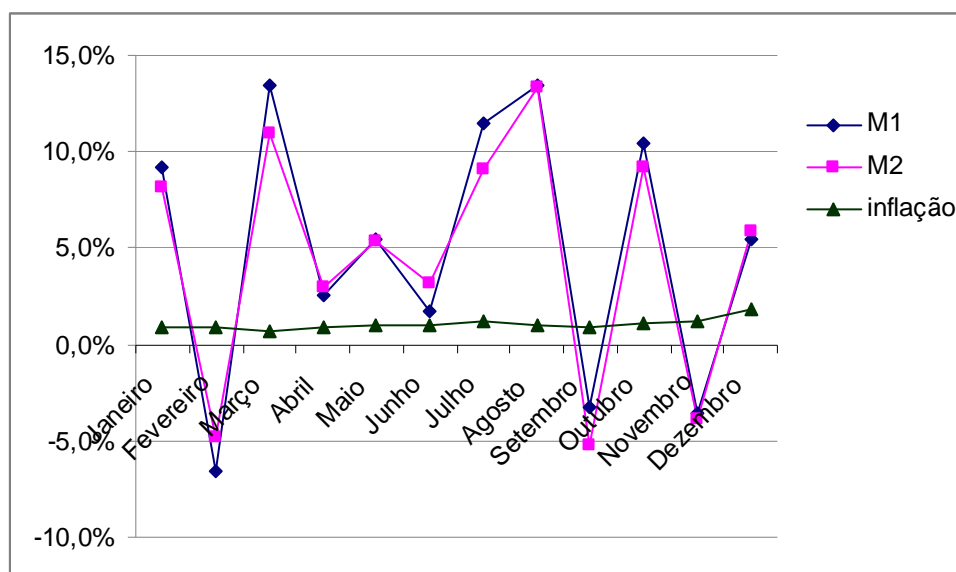
With effect in 2007 and 2008 the inflation presents a monthly behaviour very stable on contrary of aggregates M1 and M2.

INFLATION AND CURRENCY IN 2007



SOURCE: BNA, Direction of Studies and Statistic.

INFLATION AND CURRENCY IN 2008



**COURSE:** BNA, Direction of Studies and Statistic..

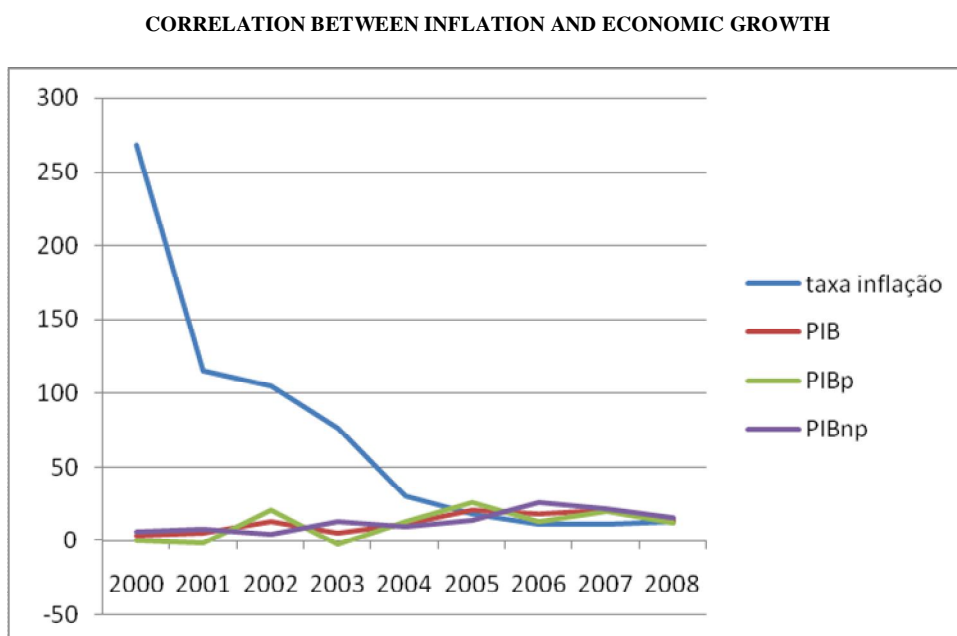
Although in relative high monthly level, the inflation was practically stable during 2008. The reduction of its monthly level to values under 0,5% - compatible with annual inflation rate around 6% - depend, largely from growth and diversification of manufacture and agriculture, from liberalizing reforms of all markets, from the improvement of circulation of merchandise and, evidently, from the maintenance in alert of variation of monetary aggregates and from the consolidation of budget management.

However, the intense growth of GDP in the last years can be presented as an important factor of economic overheating due the increment of the intermediary consumption and in salaries<sup>89</sup> and to sectoral disarticulation – still remaining and consequence of excess duty of oil and diamonds and withering brought from the past, from agriculture, from the transportation system, from energy and manufacture – increased by the nature of sub economies in presence.

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<sup>89</sup> Although, as said previously, the high rate of unemployment indicates as being still possible to create a big quantity of liquid employment which the economic growth requires with significant pressure on the salaries of equilibrium in the working market. However, being the salary a variable in short term, by excellency, to improve the living condition of the population and for reduction of poverty, the economy policy faces a serious problem which can be minimized with help of significant increments of the apparent gross productivity. Meaning that the structural reduction of poverty, is clearly a long term process.

The tendencial behaviour of GDP and its correlation with the increase of internal supply, show that the non-oil activities can play an important role in minimizing future situation of economic overheating. With effect, it is strong the affinity between the reduction of inflation and the systematic growth of non-oil production since 2004.



**SOURCE:** Estimates of the Macroeconomics Team. Based on INE and BNA.

The sustainability of this control process of price variation will necessarily depend on:

- greater convergence between the budgetary policy and the monetary policy, deepening and improving the current processes;
- by the increase of the global supply of goods and service, specially from internal origin, with the effective recovering of agriculture and manufacturing industry;
- by increase of the general productivity of the economy;

By increment of competition by publishing the competition law, by accelerating the privatization of the entrepreneurial patrimony of State<sup>90</sup> by the elimination of the existing oligopoly situation.

### **9.3.- Living conditions and purchasing power**

As it is known, no systematic inquiries are conducted on the living conditions of the population. Since 1975 until today, only two inquiries are known to have been conducted, one in 1991 and another in 2002. The last one has been the basis for the knowledge of the poverty rate in Angola.

Some generic indicators point to a slight improvement in the general welfare of the population, such as the reduction of the inflation rate, the stabilization of the Kwanza in relation to the dollar, the success of the micro-credit system, the increase of the Agricultural production of the most traditional consumption products, the slight increase of employment in the sectors that best pay the employees and the increment of the GDP per inhabitant<sup>91</sup>. However, these are not exact measures for improving the living conditions, because none of them informs about the distribution of the national revenue (the Gini index in 2005 registered the value of 0,64, an indication of the much accentuated inequality in the distribution of the revenues).

Nevertheless, there is still a need to verify what was the performance of the purchasing power of the public service salaries– turning it into the reference of the average salaries of the economy – which, between 2003 and 2007 had registered an accumulated loss of 30,38%, as registered in the 2007 Annual Economic Report, with the results of 24,2% in 2003 (accumulated since 2000), 7,83% in 2004, 0,67% in 2005, 0,58% in 2006. This sequence of registration of accumulated loss in the purchasing power of the average salary of the public service confirms that the strategy of salary adjustments – based in the expected inflation, systematically inferior to that registered in the end of each year – has not been adequate to the recovery of the purchasing power lost in the previous years. Even if the salary adjustments covered the accumulated inflation rate in December of each year, the annual average inflation rate has been higher than the homologous inflation rate, thence, the conclusion that the loss of purchasing power of salaries has been even higher.

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<sup>90</sup> Namely in the activities carried out through the monopolies, as is the case of the international air transports, in which TAAG practices high prices and does not provide a good service.

<sup>91</sup> The per capita GDP in current prices was 1843,6 dollars in 2005, 2837,2 dollars in 2006, 3478,8 dollars in 2007 and 4691,2 dollars in 2008.

In 2007, there was a growth of 0,801% in the purchasing power of the average salaries of the public service, partially consumed by the loss registered in 2008 of approximately 0,43%, making an accumulated loss of 30,88% since 2003.

The relevant information is in the table bellow.

#### STUDY OF THE BEHAVIOUR OF THE PUBLIC SERVICE PURCHASING POWER IN 2008

MONTHS	Monthly inflation rate	Index of accumulated prices	Monthly average nominal salary	Monthly average real salary	Variation of the real salary (%)	Accumulated loss of purchasing power
January	0,85	3,47	31184,5	8991,4	0,149	-30,47
February	0,86	3,50	31496,4	9003,9	0,139	-30,38
March	0,72	3,52	31811,3	9028,9	0,278	-30,18
April	0,92	3,56	32129,5	9036,1	0,079	-30,13
May	1,02	3,59	32450,7	9034,3	-0,020	-30,14
June	1,00	3,63	32775,3	9034,3	0,000	-30,14
July	1,16	3,67	33103,0	9020,0	-0,158	-30,25
August	1,03	3,71	33434,0	9017,3	-0,030	-30,27
September	0,86	3,74	33768,4	9029,8	0,139	-30,18
October	1,08	3,78	34106,1	9022,7	-0,079	-30,23
November	1,16	3,82	34447,1	9008,4	-0,158	-30,34
December	1,78	3,89	34791,6	8939,4	-0,766	<b>-30,88</b>
Accumulated	13,17	13,17			<b>-0,431</b>	
Average	1,04	3,66	32958,2			

SOURCE: INE-Index of Consumer Price; MAPESS – Information on monthly average nominal salaries. CEIC estimates.

Since CEIC started the measuring of the purchasing power of public service (2003), there was only the registration of an annual gain of the purchasing power of average salaries of the public service in 2007<sup>92</sup>.

We still notice that:

- The average monthly real salary of 2008 corresponded to 119,1 dollars (compared to 117,6 dollars in 2007 and 123,4 in 2003), which means a loss of purchasing power by the dollar, as a direct consequence of the Kwanza valuation;<sup>93</sup>
- The sequence of monthly increase in the purchasing power of the average Public Service wage remained until October, but in November and December it registered two consecutive losses;
- The cumulated increase of nominal wages in the Public Service was of 12,7% (against 11,6% in 2006 and 17,7% in 2005), sufficient to cover the cumulated annual variation of prices, which was of 11,78%; The strategy of wage adjustments resulted in a profit of 0,8%, but it need to be very much more proactive, which means more substantive profits in the Administrative productivity;
- The nominal increments were processed in two phases, just as advised by past experience and wisdom.

As a generically conclusion, the administrative productivity of the State Administration may have remained low.

**SUMMARY TABLE OF PURCHASING POWER OF THE WAGES IN THE PUBLIC SERVICE**

<b>YEAR</b>	<b>Real monthly average wage in Kz</b>	<b>Annual loss of the purchasing power (%)</b>	<b>Cumulated loss of Purchasing power (%)</b>	<b>Real monthly Wage in dollars</b>	<b>Average reference exchange rate</b>
<b>2003</b>	9759,50	-24,15	-24,15	123,41	79,08
<b>2004</b>	9060,52	-7,83	-30,09	108,59	83,44
<b>2005</b>	9032,27	-0,67	-30,56	111,81	80,78

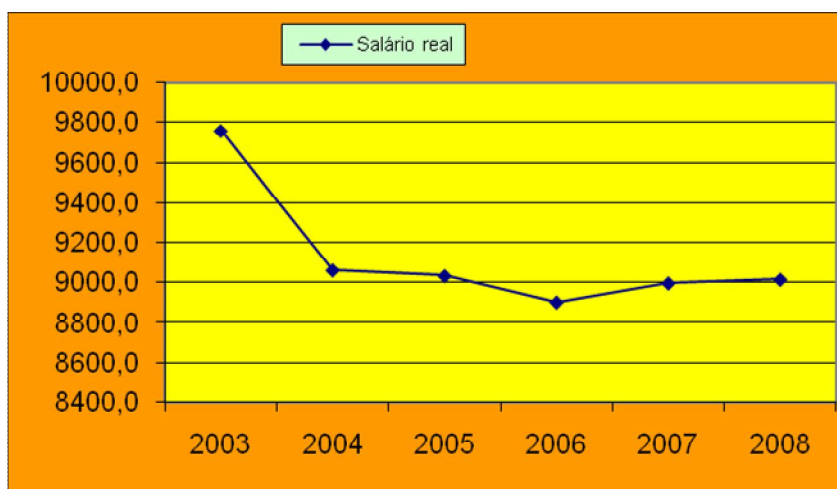
<sup>92</sup> One of the reasons for this loss of the purchasing power of public service salaries is the agreed adjustment form, which, insted of being for the registered inflation, it is by the expected inflation that ha not met the government established targets in none of the considered years.

<sup>93</sup> In 2008, the dollar devaluated 14%, compared to 14,8% in 2007 and 11,4% in 2006 (in 2005 the loss had been 11,9%, 17,3% in 2004 and 22,1% in 2003). That is, a cumulated loss of 133,7% between 2003 and 2008.

2006	8900,91	-0,54	-30,85	110,90	80,26
2007	8995,9	0,801	-30,38	117,59	76,5
2008	9013,9	-0,431	-30,88	119,91	75,17

SOURCE: Macroeconomics team, CEIC.

In terms of graphs the visualization is more suggestive, the tendency of behaviour of the average Public Service wage.



## 10.- PERSPECTIVES

### 10.1.- World Economy

For the moment, the most relevant questions on the double world crisis are: How to recover the growth rates registered between 2002 and 2007 – which means, to (re) discuss, in part, the State role in the regulation of financial systems and the increment of public investment (as to whether it becomes more interventionist, Keynesian and, eventually, socialist) – and how long is it going to take.

Regarding the last question, there are too many diverging opinions and the time of recovery also depends on the types of economies been dealt with. Some economists are of the opinion that the world economic crisis will not last beyond this year(2009), regardless of the fact that, its full extension and dimension is not yet known. Certainly, the deeper and the larger in scope it is, the more funds will have to be disbursed and more damage it will cause. There is a belief that some instruments for recovery are already starting to be gathered: Decrease of interest rates in practically all financial markets, the relative low oil prices, the reduction of the prices of *commodities* and the increment of financial resources allocated to the banks. In fact, not only the results of State intervention – nationalizing or vouching the banks – as the proper functioning of the

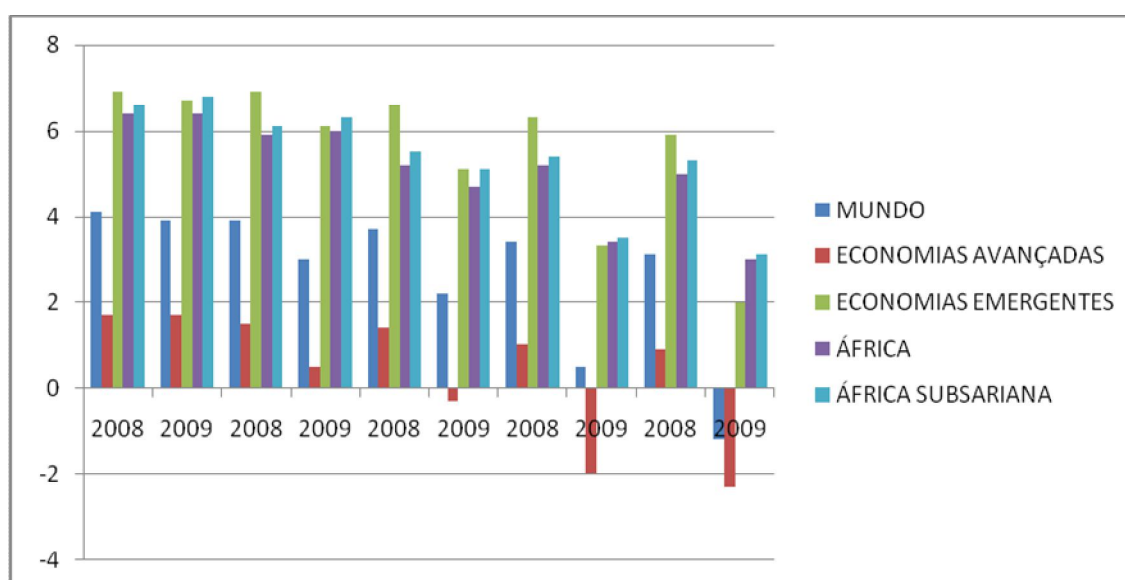
monetary market (interest rates of zero percent or close to it, will facilitate and accelerate the recapitalization of the banks, because they loan money from the Central Banks interest free and they lend in 2% or 3%, and making a really important profit), are giving an important boost to the recovery of trust in the national financial systems and are becoming the most important sources of recapitalization of the national banking systems.

Other opinions are much more pessimistic. The International Monetary Fund, the World Bank and the OCED predict a longer temporal cycle for recovery of the World economy, admitting two to three years – until 2011 – for the essential recovery of the World economic cycle to take place. The peripheric countries of the most advanced economies, with focus on the African countries, the recovery may take longer. Trevor Manuel, former Minister of Finance of South Africa believes that only after five years will the Sub-Saharan countries recover the tendencial growth lines achieved between 2002 and 2007, with an annual average rate of about 5,5%. Although this is still not enough for achieving the goal of reducing poverty in 50% by the year 2015.

The stabilization of an economic scenario has not been possible. The institutions that usually conduct such studies are systematically surprised by new and unpredictable facts that demand the introduction of adjustments, beyond the presented projections.

The graph bellow helps to understand the difficulties found in establishing the predictions for 2009 and even in closing down the 2008 economic year. Five different predictions of the International Monetary Fund have been collected (World Economic Outlook) and established in July, October and November 2008, and January and March 2009. As verified, the numbers have been systematically revised in break.

**IMF PREDICTION ON THE PERFORMANCE OF THE WORLD ECONOMY**



**SOURCE:** IMF World Economic Outlook, July, October, November 2008, and January and March 2009.



The stress is on the numbers related to March 2009, in which the International Monetary Fund predicts a recession in the world economy and the advanced economies, and the economic growth of Sub-Saharan Africa will only outgrow the natural growth of the population in 0,4 percent; this means there will be stagnation in the life condition of the Africans.

### 10.2.- The leading economies

The predictions of the leading economies on earth for 2009 are presented in the following table.

ECONOMIC PROSPECT FOR THE LEADING ECONOMIES (Numbers in %)						
VARIABLES	2008			2009		
	USA	Euro-zone	Japan	USA	Euro-zone	Japan
Real GDP growth rate	-4,0	-4,1	-6,6	0,0	-0,3	-0,5
Index of consumer prices	1,2	0,7	0,0	n.d	n.d	n.d
Unemployment rate	10,5	9,8	8,4	8,7	9,0	7,0

SOURCE: OCED, March 2009 World Economic Outlook, IMF, April 2009.

### 10.3.- The emerging economies

Just as the most advanced economies, the emerging economies will also suffer the negative impacts of the international crisis. They are not expected to face a recession, but they will have a significative break in economic growth.

The hardcore of the emerging economies constituted by Brazil, India, China, and (BRIC) is going to face the greatest consequences because of the world economic retraction.

The oscillation of oil price is being considered as the “*third greatest chock*”, made of a great meteor followed by a rampant fall of over 100 dollars per barrel, or 17% in a space of few months. After reaching its minimum price in December 2008 (31,41 dollars a barrel), the crude has been recovering its value slowly, having reached 50 dollars in March 2009, a percentual increase of 59%. This can be very good news for Brazil and for Russia and a bad news for the world economy, which will face its greatest recession ever.

Russia will have to face a budgetary deficit estimated in 150 billion dollars in 2009, which forced a revision on the prediction of GDP growth of 3,5% initially established, to 2,4% less than half the 2008 mark. This strong break of growth is due to

one of the greatest fragilities of the Russian economy, namely, its great dependence on Oil and Gas production and exports. The fall of the price of oil barrel caused a sudden break in value of its exports, which is causing the devaluation of the Rublo that has lost over 10% since October 2008.

Brazil is in 13<sup>Th</sup> place in the ranking of the greatest Oil producers. It will face some difficulties during 2009, during which time, the GDP growth rate will be 2,3%. The world economic and financial crisis – which, for President Luís Inácio da Silva, *was caused by the blue eyed whites* – will diminish its exports to the greatest economies of America and Europe, not compensated by its new relations with Africa, particularly with Angola, where this country – under the coverage of its credits and the Annual Budget of the Angolan State – exports everything, from the material to the non-material. In case the barrel of crude is fixed in an average 50 dollars, some of the social programs of poverty reduction and social inclusion will be affected, there may be necessary cuts or adaptations. However, there are other side effects. A significative decrease in exports will corrode the good foundation to resist the crisis: High international reserves, a compatible foreign debt, a positive balance of the current transactions account, control of inflation. The postponing of the exploration of pre-salt reserves is another collateral effect, considering that the costs of its extraction require the spending of the minimum amount of 40 dollars per barrel. Finally, one of the standards of the current government may remain at half-mast. In fact, another side effect may be on the ethanol business, a bio-fuel expanded and favoured by the cycle of oil price heights.

Venezuela is one of the top Countries in the list of those that have misspent the Oil dollars in populist programs. Since the rise of the current president to power in February 1999, the national debt has doubled, having reached in 2008, the amount of 75 billion dollars. The cuts of exports and the reduction of revenues in currency are pressurizing the Bolivar to devaluation. The difficulties may be dramatic, at least in 2009. A study of the Deutsche Bank – quoted by the March 2009 edition of the *Exame Magazine* – suggests that the countries national accounts would only be balanced if the Oil barrel is pegged about 95 dollars. From a GDP growth rate of 6% in 2008, the prospects for 2009 are 2%.

According to the World Bank prospects, the growth perspectives of the emerging economies are shown in the table bellow.

#### **ECONOMIC GROWTH OF SOME EMERGING ECONOMIES**

(%)

COUNTRIES	2008	2009	2010
CHINA	9,4	7,5	8,5
ÍNDIA	6,3	5,8	7,7
BRASIL	5,2	2,3	4,6
RÚSSIA	6,0	2,4	5,0

<b>ARGENTINA</b>	6,6	1,5	4,0
<b>DEVELOPING COUNTRIES</b>	6,3	4,5	6,1

**SOURCE:** OCED, March 2009. Global Economic Prospects 2009, World Bank.

#### **10.4.- The African Sub-Saharan economy**

The economic growth of Sub-Saharan Africa was strongly influenced by the Oil exporting economies, with an average variation of 5,4% in 2008 (between 2006 and 2008, the annual average variation rate of the GDP was 5,9%). For the Oil importing economies –excluding South Africa – the real increase of the GDP was only 5,2% in 2008, compared to 5,8% in 2007.<sup>94</sup> The increase of oil prices affected private consumption, and in some way private investment was also affected, probably without compensation by the increments of public consumption. The Oil exporting African Countries grew up 7,5% in 2008 and also in 2007.<sup>95</sup>

South Africa – the greatest economy in the African continent – although having reduced its variation, 5,1% in 2007, to 3,4% in 2008 – continued to expand with sustainable rates (4,7% average between 2005 and 2008). Private consumption registered a break due to restrictions in bank credits and the high prices of oil by-products and food stuff. The energy crisis (considered by some as one of the greatest economic shortfalls of Thabo Mbeki Government) contributed to the decrease of mineral production in the mineral sector, transmitting part of this effect over the global GDP. In general, the South African economy was one of the first to feel the effects of the international financial crisis, right from 15 September 2008.<sup>96</sup>

The second largest economy in the African Sub-region continued to be fustigated by the Niger delta problems which provoked non-planned cuts in oil production (just in the second quarter of 2008 the cut was of 11,2%). Notwithstanding this situation, its non-oil economy registered a significative growth in 2008, estimated in 8,5% (the GDP growth rate in 2008 was of 6,3%).

According to the World Bank, Sub-Saharan Africa is expected to achieve economic growth rates of 6% and 5,8% in 2009 and 2010, (5,4% in 2008). For this international institution, the average growth rate of this sub-region between 2008 and 2030 will not be higher than 3,3%.

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<sup>94</sup> World Bank - World Economic Prospects, 2009.

<sup>95</sup> World Bank - World Economic Prospects, 2009.

<sup>96</sup> World Bank - World Economic Prospects, 2009.

### PROSPECTS FOR THE MAIN AFRICAN SUB-SAHARAN ECONOMIES

YEARS	ANGOLA	SOUTH AFRICA	NIGÉRIA	KÉNIA
2009	11,1	2,8	5,8	3,7
2010	11,3	4,4	6,2	5,9

**SOURCE:** Global Economic Prospects, 2009, World Bank.

For the Oil producing African Countries, the influence of the world financial crisis is differentiated according to the prospects of the African Report.

### THE SUB-SAHARAN OIL PRODUCING COUNTRIES AND THE ECONOMIC CRISIS (The GDP growth rate in %)

COUTRIES	2008	2009
ANGOLA	12,0	n.d
NIGERIA	9,1	8,3
SUDAN	7,6	12,7
CHADE	1,8	n.d
CONGO	9,2	10,6
GABON	4,2	3,8
CAMEROON	4,5	4,6
IVORY COAST	2,9	5,1
DRC	8,8	11,6
S. TOMÉ E PRÍNCIPE	6,0	6,0
EQUATORIAL GUINEA	10,1	4,9
SUB-SAHARAM AFRICA	5,4	3,5

**SOURCE:** The Africa Report, 2009; December 2008/January 2009.

#### 10.5.- The Angolan economy

The national economy is subjected to a series of external influences conditioning its growth.

#### The Chinese economy

In the recent past two years, China has been the main destination of the Angolan mineral exports and the most important foreign creditor of the State. The national foreign debt at the end of 2007 was 9,8 billion dollars, about 40% of this amount

represented the commitments with China. China has also been improving its position in the Angolan economy, with the exports of its products growing up to significant rates, about 60% a year. These trade flows are facilitated by the financing agreements – where some explicit advantages of the Chinese building materials and diverse equipment is a fact – and by the competitiveness of the Chinese products of consumption.

The prospects for 2009 have been varying almost daily, as the international institutions specialized in forecasting techniques update their information and have a more real perception of the current international economic and financial crisis. Initially, the Chinese economy was expected to grow 9,6% in 2009 – there was already a fall from the 10,5% registered in the previous years – a number corrected to 9,1% in April by the international monetary Fund in its World Economic Outlook and to 7,5% by the forecast services of the OCED in the beginning of December. The most recent adjustment puts the Chinese GDP growth in about 6%.

The reasons for this highly positive expectation about the Chinese economic growth relate to some options taken by the authorities of the World most populous Country regarding the answers to counter the effects of the international economic crisis, regarding the Chinese exports to the most developed economies and the most active emerging economies.

The differences between Agriculture and the rest of the economy continue to be one of the most relevant problems of the Chinese economy. There has been an increase in regional inequalities, against Agriculture and the Chinese farmers. The Government plans and programs for the coming years put the reduction of these territorial differences in economic growth and the living conditions of the population as one of the most important political goals. By maintaining its Communist political model, China intends to keep on using capitalism as best as it can, in order to obtain significative levels of variation of its Gross Domestic Product in the future.

In order the to reduce the differences between the most developed and the least developed regions of the country, the Government has a vast and significative infrastructure program, involving significative amounts of public investment. This fact will certainly help to keep high expectations of economic growth, resulting in possible attraction of foreign private investment for co-related activities.

Another factor to consider in the growth perspectives for 2009 is the huge internal Chinese market, which purchasing power have been improving as a result of the economic growth, of the net employment creation, and meaningful poverty reduction. Thus, the increase in internal consumption may, to a certain extent, counterbalance the expected break in the Chinese exports due to the retraction of international demand.

Although the Chinese foreign reserves suffered a fall caused by the applications in financial assets or real estate contaminated by the toxic effect of the international financial market, it remains as one of the biggest in the World. China continues to be one

of the largest international financial reserves and one of the most important investors of the world economy.

In summary: the Angola-China partnership will continue to be a positive factor for the growth of the Angolan economy, in the area of oil export guarantee and the availability of money to cover the public investment programs<sup>97</sup>.

### THE OPEC

With the membership of Angola in this cartel organization, the Oil exploration strategy stopped being entirely national.

The OPEC is convinced that reductions in the Global supply of crude would be enough to invert the tendency of lowering prices in the international market. The initial reaction of the market were in the opposite direction, that is, the international Oil price continued to decrease and consequently, the revenues from its exports. However, between March and April, 2009, there was a relative stabilization of the prices of Oil barrel in between 50-60 dollars and expecting the next decisions of the Cartel.

There have been drastic reductions in the Oil production of member countries, with evident damages on their fiscal revenues and currency, by a conjugated effect price/supply. In 2008, after the setting of 99000 thousand barrels/day established in the last quarter, the Angolan production was 693600 thousand barrels, corresponding to an increment of 11,9% in relation to 2007 ( the initial prospect before the OPEC decisions, were about 714 million barrels). In 17 December 2008, there was an agreement of new, more drastic reduction of 2 million barrels/day set by the members of the Organization, with incidence in 2009, which puts the expected production in our country in 604440 thousand barrels, a reduction of 12,9%. These scenario will have dramatic repercussions

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<sup>97</sup> From the political point of view, this economic cooperation with China, the third greatest economy in World in the absolute value of its GDP, may be risky. Who ensures that China is not preparing a new colonialism in Africa, with its husky feet, and hands full of money? A new colonialism with its own characteristics: Accepted and desired by the African countries (as a weapon to break the westerns hygemony and vingeance for the 500 years of Werstern exploitation?) For more details read, Manuel Correia de Barros, «*China: a arma de África para quebrar a hegemonia ocidental*»(*China: Africas' weapon to against Western higemony*) The Catholic University of Angola, the International Coference on China-Africa relations, March 2009), a respector of local culture and values, that does not interfere with their History and does not question their ideological and doctrinal models of political and economic organization. Therefore, it will simply mean a rule through financing against a garantee of access to raw materials and basic products that it needs so much. However, one should not forget that China was a great impire, playing currently a certain colonial role over territorries striving for their cultural and political autonomies. Considerig that China is an economic and military (nuclear) superpower, are there not signs of colonial domination in the principles guiding the China – Africa cooperation? The fact that internally China is a military and political dictatorship, can it not generate external neo-colonial behaviour? The limited hiring of local manpower in the countries where the Chinese companies implement the financed workk by the almighty EximBank, is it merelly because of the lack qualified people, or is it also the result of a new colonial exploitative relationship?

on the GDP growth rate – which might mean a situation of stagnation or even economic recession, all depending the capacity of non Oil activities of compensating the significative fall of Oil – which is not likely, considering the known weakness and the lack of infrastructural, physical (roads, electricity, water) and institutional fundamentals. Further, the performance of private investment will be relevant, expecting for 2009 the most important effects of the required investments for the 2010 African Cup of Nations.

Again, the level of the quota that OPEC attributes to Angola in 2009 and 2010 is one of the uncertainties for these two years and this fact will condition the growth perspectives for our economy in the next two years.

As a conclusion: Considering the OPEC deliberations, the expected Oil production for 2009, will be reduced from 739,7 (the first Government forecast made in 2008, during the preparation of the 2009 Government plan) to 604,4 million barrels (about 370 thousand barrels a day).

#### **The international financial crisis**

What economic consequences should the government fear and against which it should apply the antidotes?

The first is in the area of economic growth. Even if Angola does not enter into an economic recession, the intensity of economic growth is not going to be the same in the years to come. For example, GDP growth rates around 6% a year will clearly be insufficient to overcome poverty, increase employment and improve the structuring processes of the economy (economic productivity, external competitiveness, innovation and research). As an example, NEPAD estimates the annual GDP growth rate in 7,5% (4,5% of the GDP per inhabitant) necessary to reduce the poverty rate in 50% in about 15 years time. Another example: the necessary investment rate for covering only the costs of the population reproduction (2,9% in our country is the natural population growth rate) is 8,7%.

Is there a risk of an economic recession in 2009? Certainly. It just depends on the international situation. If it worsens and the Oil price falls to less than 40 dollars a barrel; if private investment retracts and international financing becomes unavailable, it will certainly happen<sup>98</sup>. Nevertheless, this likely scenario of recession – even if subjected to various international undeterminations non controllable by the government – means nothing if the nation stands idle and quite before the economic degradation. As a matter of fact, economic police is practiced as a mean to invert the processes of economic default.

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<sup>98</sup> The new monetary policy of the National Bank of Angola is provoking perverse effects on the liquidity of commercial banks, which started to limit, following new guidelines, the sale of currency for imports and credit concession to investment and private consumption. The effects will be serious on the growth capacity of the economy in 2009.

The second is related to employment. In reality, with less economic growth it is very likely that the opportunities of creation of net employment become scarce. Starting from the tendencial growth rate of the Angolan economy, the neutral GDP growth rate in relation to employment is estimated in 9,6%. This means that, in order to avoid the aggravation of unemployment, the economic growth must be 9,6% per year. Therefore, a GDP growth rate of about 6% in 2009 will not contribute to the reduction of an unemployment rate of 23,9% registered in 2008.

The third consequence is in the area of investment. The pronunciations regarding the probability of Angola facing a recession this year are many – the IMF indicates - 3,5%<sup>99</sup>, the Economist estimates it in -2,3%<sup>100</sup>, the OCED puts it in -7,2% and the local representation of World Bank estimates -4%<sup>101</sup> - and are based in the most expected reduction of public investment, due to the degradation of the fiscal Oil revenues (fall of oil price and effect of the OPEC factor over production). These positions are correct. However, they must be transformed into relativity by the effective execution/absorption capacity of the national economy. That is, the reduction of about 37% in the public investment amount may correspond to an adjustment to the effective execution capacity of public investment (normally, between 60% and 75% of the programmed).

In regard to private investment everything will depend on the understanding that both the Angolan and the foreign economic agents will have about the contractionist measures implemented by the National Bank of Angola. The degrees of trust in the government economic policy have been decreasing, making the most rational attitude become the expectation in relation to the capacity of the national economy to react to the break in the intention of private investment. If the price of the oil barrel do not reach amounts around 80 dollars – the amount already expected in 2008 by the Angolan Ministry of Petroleum and acting OPEC president, as desired the organization member countries – the monetary and cambial restrictions will continue to be imposed on the economic system, so, there is a high probability of the non-oil private investment to diminish considerably<sup>102</sup>. The positive effects of public investments made in the recovery, construction, and modernization of the economic infrastructure are not going to start compensating the break of trust by the private agent.

Public investment has been one of the main instruments to boost the public expenditure. In the recent past years, the calculated amount in accordance with the GDP has increased and consequently, the increment of the absolute number. Nevertheless, for

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<sup>99</sup> International Monetary Fund – Angola, 2008 Article IV Consultations, Preliminary Conclusions, January 2009.

<sup>100</sup> Economist Intelligent Unit – Angola Economy: Seizing up, 21 January 2009.

<sup>101</sup> Macro-Brief: Angola, January 2009, World Bank Local Representation.

<sup>102</sup> The enormous and acknowledged hydro-electrical potential are, without doubt, a very big factor of both Angolan and foreign private investment attractiveness, to which the process of privatization of production and distribution of electricity is certainly going to help. The hydro-electric potential is evaluated in 18000 MW, to be added by 6500 MW more, after the implementation of the *médio Kwanza* project involving investments of about 7,3 billion dollars between 2009 and 2016. Check the CEIC 2008 report on electricity, by the inergy study team.



2009 is expected an adjustment below in the financial volumes of public investment, which will affect the growth capacity of the economy, imposing the need of a greater rigour in the choice of projects, in the oversight of public works and the cost-benefit assessment of the respective enterprises. In the contrary, the wasting risk is very high in this context of shortage.

However, the crisis may create opportunities as well to adjust many of the “shootings” made after the beginning of economic recovery and national reconstruction:

- The opportunity to correct the excessive euphoria and enthusiasm that the economic and banking systems have been registering since 2004.
- Opportunity to correct the growth model, which is unjust, disarticulated and less efficient. The social market economy – that is often talked about in our country – has an important component providence and social welfare that is very latent, not to say inexistent in Angola, apart from preferring the efficiency in terms of allocation of resources.
- The opportunity to review the rationale of the national financial system structure, adjusting it to the control, inspection and corporative responsibility demands.

With the expected decrease of the GDP growth rate, unemployment is likely to grow in at least three percent, that is to say that, starting from a level of 23,9% in 2008, the unemployment rate in 2009 may reach 26,9% representing a significative value of wastage of one of the most important growth factors of an economy.

The evaluation of the effects of the international economic crisis over the Angolan economy determined the construction of certain analytical instruments.

The likely growth scenarios of the Angolan economy were one of them. Through this path it was possible to evaluate the impacts over the economic growth, considering the government prospects, in the case of our country.

Regarding the government prospects – 15,6% and 11,8% of the GDP growth respectively, for 2008 and 2009 – and that of the CEIC, the reduction of the Angolan GDP growth rate is likely to reach -35% in 2008 and -47,5% in 2009.

The retraction of economic growth is going to affect the variables of fiscal revenues, customs revenues, exports, imports and the payment balance.

## SUMMARY OF THE LOSSES RESULTING FROM THE WORLD ECONOMIC CRISIS

(Amounts in billion dollars)

COUNTRIES	EXPORTS		IMPORTS		COMMERCIAL BAL.		TAXES		CUSTOMS	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Angola	-1,58	-1,42	-0,34	-0,35	-1,24	-1,09	-6,78	-9,88	-0,005	-0,006

### 10.5.1.- Projections of the GDP

The mineral, Agricultural and industrial potential of Angola are well known and the country will have to establish the new foundation of its sustainable, inclusive and competitive economic growth. However, our economy is still lacking the true foundation of sustainability of growth and the consolidation of macroeconomic stability, which should be constituted in the non-oil sector and in the development of scientific, technological and innovation capacities.

The world crisis will affect significantly the economic growth rhythm of the country.

In previous chapters various issues were already raised in relation to the effects of the world economic crisis over the Angolan economy and the previous table presents an attempt to quantify it.

Considering the possible evolution of the world economic situation that influence the performance of the Angolan GDP – demand and oil price, respect for the signed agreements with OPEC and Chinese economic development – and the restrictive effects induced by the monetary policy of the Central Bank after arch 2009, there were to possible scenarios of GDP growth designed for 2009 and 2010 and one for 2011.

The fundamental assumption of the projections is that the model of economic growth has to deviate from the oil economy and give a wider space to the structuring sectors of a profound diversification, consistent and sustainable and more specialized in helping to reduce poverty.

### HYPOTHESIS OF SCENARIOS

	2008	2009	2009	2010	2010	2011
Oil production (millions of barrels)	693,6	619,8	638,4	737,4	737,4	766,6
Price of oil barrel (usd)	70	70	70	70	80	80
Oil/GDP (%)	57,6	52,4	52,7	53,0	53,0	52,0
Inflation rate	13,2	12,5	12,5	11,0	11,0	10,0
Exchange rate (usd/kz)	75	75	75	75	75	75

SOURCE: CEIC, the Macroeconomic team

Some comments:

- The projections about the behaviour of oil prices were compiled from diverse articles of opinion and information from the IMF, World Bank, OCED and the International Energy Agency. The common denominator the high degree of imprevisibility, not only because of the uncertainties in the recovery of world growth, as the consequences of the policies oil substitution by cleaner energetic sources.
- Oil production is based on the information of the Ministry of Petroleum corrected of the OPEC effect.
- The values of the relation oil GDP/GDP has in consideration the desire of diversification of the national economy. Thence, the acknowledgment of a long term reduction.
- The inflation rate is projected with a descendent orientation, captivating thus, the desired structural changes and an improvement of the satisfaction capacity of the internal supply.
- The values of the exchange rate reflect the huge uncertainty of the cambial market, having opted for its maintenance at the level of 2008.

REAL GROWTH RATE IN PRICES OF 2002				
ECONOMIC SECTORS	2009	2009	2010	2011
Agriculture, sylviculture, fisheries	11,4	13,9	14,1	10,2
Oil and by products	-10,6	-8,0	15,5	4,0
Diamonds and others	-4,0	-1,8	2,6	6,5
Manufacturing Industry	10,4	12,9	14,7	13,8
Electricity and water	21,3	24,0	22,3	16,5
Public works and building	20,1	22,8	11,0	10,0
Trade, Banks, insurance, services	13,8	16,3	17,5	7,8
Other	16,7	19,3	6,3	3,7
GDP	1,0	3,3	14,7	6,5

In terms of aggregates, the projections led to the following results:

#### PROJECTIONS FOR GREAT ECONOMIC AGGREGATES

	2009	2009	2010	2010	2011
GDP	1,0	3,3	10,9	14,7	6,5
Oil GDP	-10,6	-8,0	12,2	15,5	4,0
Non-oil GDP	10,3	12,2	10,0	14,7	8,2

**SOURCE:** CEIC, the Macroeconomic team.

In terms of living conditions, there was a GDP projection per inhabitant in prices of 2002 and the results are:

**PROJECTIONS OF THE GDP PER INHABITANT IN CONSTANT PRICES OF 2002**

	<b>2008</b>	<b>2009</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2011</b>
<b>Population (A thousand inhabitants)</b>						
	17889,9	18408,7	18408,7	18942,6	18942,6	19491,9
<b>GDP per inhabitant (dollars)</b>						
	1964,8	1875,5	1920,8	2144,0	2170,0	2207,8

**SOURCE:** CEIC, the Macroeconomic team.

## 11.- SUMMARY OF THE MAIN ECONOMIC EVENTS IN 2008

### January

- The governor of the BNA (National Bank of Angola) ensures a greater stability of the kwanza. The consolidation of demand for the national currency is given by the fiscal and monetary currency.
- Oil price reach 100 usd per barrel and gets close to the record of 101,7 that the barrel cost during the war between Iran and Iraq, which created amongst other things, a crisis in oil supply.
- The propagation and modernization of Agriculture will be implemented through the “*Aldeia Nova*” projects, in Provinces of Bengo, Benguela, Bié, Cabinda, Huambo, Lunda-Norte, Malanje, Moxico, Zaire e Uíje. With an investment of 400 million dollars and the participation of the Israeli companies and the objective of the project is to re-launch the country economic activity in the rural areas, and Agro-industrial compounds will be built and will be installed logistics, technical and credit support centres for the transformation and commercialization of the products.
- To promote the expansion of the financial sector, namely the banking, as well as facilitate access to credit, the BNA signed an agreement with the development Agency of the US Government (USAID).
- The sale of 49,99 % of the Millennium Angola capital to Sonangol and to the *Banco Privado Atlântico* (Atlantic private Bank), through an increase of capital, was the object of an agreement signed by BCP and the Angolan companies.
- The creation of the Capanda Agro-Industrial zone was conceived by the Angolan government, including food, alcohol, sugar and cooking oil producing units, butcheries and other services.
- At the end of 2007, the World Bank has allocated 102 million American dollars to the Angolan government to invest in the infrastructure sector. From the second quarter of 2008 will be allocated the same amount to finance projects in the Agriculture and water sectors.
- The United Nations Development Programme (UNDP) will implement an Added Sustainable Business Program, designed to promote the inclusion of the Angolan private sector in the development plans and the millennium objectives. Through own funds, it will facilitate the creation of business partnerships between the Angolan companies and foreign companies capable of contributing to the investment of the national companies.

- The Angola Development Bank (BDA) has already approved the first 157 projects with the value of 307 million kwanzas to finance projects in various provinces, namely to support the restructuring and reorganization of the productive networks of maize, beans, and cotton, joined recently by the production of manioc, Agriculture and cattle breeding. Created in 2006 and having the fiscal revenues of oil and diamonds, the BDA will give priority to financing projects which budget is equal or above 5 million dollars, in order to support, preferably, the structuring projects for the country sustainable development as well as the business that guarantees the return of bank allocated resources.
- The diamond polishing factory, “Polishing Diamonds”, has a capacity to process diamonds evaluated in 20 million dollars a month. The factory is a joint venture between the Diamond Trading Society (SODIAM), a subsidiary company of Endiama, the LL Diamonds, owner of the Lev Leviev group, the greatest diamond polishing company in the world and the Projeni, an Angolan joint venture.
- The public company Procafé, specialized in the coffee sector will implement industrial activities with the installation of roasting machines in some provinces of the country with greater potential of production as well as the creation of commercial establishments to help the farmers in the acquisition of goods and working tools.
- The United Nations Development Program (PNUD) has promised to bring a North American coffee retailing company to Angola, in order to buy and sell the national coffee abroad and make partnerships with the businessmen of the sector.
- The production of Arabic coffee is going to be carried out by the National coffee Institute of Angola, and for that the infrastructure of the Ganda experimental station is being reconstructed, community nurseries are being created and family farms reactivated in the main potentially productive regions.
- The African Investment Bank (BAI) has taken the majority of shares (85,7%) and the management of *Novo Banco* (New Bank), with the acquisition of the shares owned by four international entities. The other share holder is a company of the Chevron group, which has the initiative of supporting investments of socio-economic nature.
- In the first international conference on “Law, Ethics and Social Responsibility: The challenges for Angola”, held in Luanda by the initiative of the Faculty of Law of the University Agostinho Neto in partnership with an oil company, it was mentioned there that the survival of the companies in a certain market is directly related with the good social practices in production of goods or in service delivery in their communities. In Angola, the social responsibility depends on the code of conduct and ethics and not of any commercial code matrix. The oil companies were exhorted to exert their social responsibilities with the communities around the areas where they do their activities with a better rigour and efficiency and

articulate their economic programs with social projects and goals designed by the government.

- Between January and February 2007 the Portuguese exports to Angola reached 1.5 billion Euros, corresponding to 19% of the Portuguese extra-communitary exports. The Portuguese imports of Angolan products were 370 million Euros, corresponding to 2,9% of the total extraordinary Portuguese imports.
- The index of consumer prices in Luanda registered in the month of December, a variation of 1,91%, the highest in 2007. The accumulated annual inflation was 11.78%.

## **February**

- Sonangol announces a growth of 30% of the profits in the 2007 exercise. In the day it commemorated 32 year of existence, the managing director of Sonangol announced that the business volume in 2007 was about 17 billion dollars, 6 billions more in relation to 2006.
- The debt with the Paris Club is settled in a bilateral basis, and the debt with some member countries such as Portugal, Spain, and Polonia. Very important countries such as Germany, England, France, and Japan are expected to give bonified credit to Angola.
- Angola has passed the last version of the Cotonou agreement regulating the cooperation between the European Union and ACP countries. Consequently, Angola will benefit 214 million Euros from European funds for development.
- In a visit to Angola, the Portuguese Minister of foreign affairs manifested the willingness of the Portuguese government in facilitating the entrance of Angolan companies into the Portuguese market, which is a prospect for future interactivity and articulation between the strategic action of the Angolan and Portuguese companies and bringing a considerable benefit for the Portuguese economy. During the visit, there was the signing of the Protocol on the Mutual Protection of Investments and the issue of delays in the issuing of working visas in Angola was discussed; this issue is also subject to international conditionality. However, the Consulate of Angola in Lisbon ensured that a process of time reduction is in course, and it will enable the Visa issuing time, to a period of 15 to 30 days.
- Discovery of the fourth oil-well in the bloc 31, offshore, called “Portia” with the capacity to produce 5 thousand barrels a day.
- The Angolan oil production reached 1,9 million barrels/day.
- Some countries like Brazil, which is appointed as the innovative experience in the production of bio-fuel are demonstrating interest in the production of alternative fuel in Angola. Based in sugar-cane bio-fuel is going to be produced, an

investment evaluated in 200 million dollars, in which, besides Sonangol, there are other Angolan business groups and a Brazilian company participating. The project will be built in the Province of Malanje, in the margins of the lake in the Capanda Hidroelectric base.

- Five thousand hectares of land that is the object of the construction of a project of building an irrigation infrastructure, will produce cotton in the Province of Kwanza Sul, involving over three thousand families from 2008. The project has the financial support of China. The intention is that the revamping of cotton production in large scale permits the development of the textile industry. Before independence, this province was the second greatest cotton producer, following Malanje, having achieved about 22 thousand tones in 1973, in a productive area estimated in about 41 thousand hectares.
- The Chicapa Hydro electric Dam in the Province of Lunda-Sul started working in an experimental phase, having improved significantly the supply of electrical energy to the city of Saurimo, the capital of the Province. The full start is expected to occur in March next year. This is a ground-project resulting from a public-private partnership between the national electricity company and a Russian Diamond company.
- Benguela is the Province that produces more bananas in the country, through plantations in the Cavaco valleys, Dombe Grande and Hanha do Norte, situated on the coast. With a production above 500 thousand tones a month, the lack of storage, conservation and maturation infrastructure are the greatest difficulties faced by the producers.
- Luanda was considered the most expensive city in the world for the expatriates, according to a study published by an international institution in November 2007. The study is based in the prices in the last 12 months of a food basket of 128 food items and services usually acquired by foreigners in 300 places in the world. The data collected is used by the companies to calculate the living-allowance paid to the employees abroad. In 2006, Luanda was in the second place.

## **March**

- Angola presents projects evaluated in 208 million dollars, in the meeting on partnership projects between India and Africa held in New Deli. In overall Africa took 130 projects to that meeting evaluated in 10,5 billion dollars.
- The council of Ministers approved the first salary adjustment for the public servants for 2008 of about 8,78% considering the increase of nominal salary for recovering the purchasing power of the citizens, due to the accumulated inflation and provided by the 2007 national budget.



- Angola produced 9 million karats of diamonds in 2007, generating revenues evaluated in 1,2 billion dollars.
- The regional director of the Namibe customs-house, Osvaldo Michinge, said that the money collected during 2007 in the whole customs region of Namibe, composed by the Provinces of Huila, Cunene, Kuando-Kubango and Namibe, was 9,2 billion kwanzas, pegging 118 million dollars. By the end of 2008 was collected the equivalent of 2 million American dollars.
- The price of the oil barrel exceeded 107 dollars in New York, after the announcement of the sabotage of an oil GDP near Bassora in Iraq, with the investors fearing a total stoppage of the Iraqi exports.
- Many hectares with massambala, massamgo, maize and bean crops were destroyed by a pestilence provoked by lizards which invaded the cultivated areas in the province of Huila. Nicknamed as the military lizard, the reptile plague has also affected the cattle grazing. The cattle breeders are complaining of the death of their cattle, feeding in the perimeter affected.
- The public telecommunication company, Angola Telecom is testing the wireless telephone system in the city of Kuito, province of Bié.
- According to the national Director of Agriculture, Forest and Cattle breeding, Domingos Nazaré, Angola has 30 million hectares of virgin land with hydric and Agro-ecological potential for the production of bio fuel. This production may prevent some environmental problems resulting from the use of fuel from mineral products.
- Angola does not process a national energetic matrix yet. It is estimated that 60% of the country population live in rural areas and uses fire woods and vegetal charcoal as the main source of energy. According to the national Director, Domingos Nazaré, the use of firewood and charcoal represent 56,8%, followed by paraffin with 41,7%, electricity with 1,45% and natural gas with 0,1%. It is estimated that the annual need of charcoal and firewood is about 6 million cubic metres, which corresponds approximately 510 million dollars.
- The excessive bureaucracy verified at the Santa Clara customs-house in the Province of Cunene, is creating embarrassments to the businessman from the Huila Province. The slow processing of the merchandise imported from South Africa and from Namibia keeps the transporting trucks for over a month at that boarder post.
- Bank BIC has over 3 million dollars to help develop Agriculture and Cattle-Breeding in the country. The guarantee was given by the chairman of the institution, Fernando Teles. The starting point to support the businessmen

investing in big farms will be in Bié, in consideration to the space provided by the provincial government. Many model farms are expected to be built in the region.

- Angola is the second African country that has exported more to Canada in 2007, obtaining revenue evaluated in 1,2 billion Canadian dollars.
- The National Institute for the Protection of Consumers (INADEC) suggests the creation in the near future of councils for conflict mediation between the sellers and the final consumers.
- The new tariff of the customs-house passed recently by the National Assembly was well applauded by the national business community. Amongst other things, this act gives privilege to the revamping of the national production and tax exemptions over the imports of raw-material, intermediary consumable goods for the industries and some equipment.
- According to the Governor of the Benguela province, Dumilde Rangel, the provincial fiscal office collected in January 2008, the equivalent of 20 million American dollars.
- 90% of the oil spilt in bloc 17, operated by Total E&P was already dealt with the use of the most updated dispersants, informed the Ministry of Environment and Urban Affairs. According to estimates 19 thousand oil barrels were spilt.
- Over 80 thousand tones of fruit, with emphasis on oranges, mangoes, apples, pears and plums, collected by the fruit farmers from Humpata, Huila province were sold in the main markets of Lubango, Benguela, Luanda, and Namibe. This number refers to the Agricultural year of 2007/2008.
- The Organization of Oil Exporting Countries (OPEC) decided in its 148th ordinary meeting, to maintain the current levels of production and blaming the American economy for the high prices in the world oil market.

## **April**

- President José Eduardo dos Santos inaugurates the Public Administration School. Built with a budget of 20 million dollars, this school trains higher public administration officers and from the public and private business sector in the area of organizational management.
- The Spanish government considers Angola as the priority country in the Spanish cooperation in Africa, focusing in Agro-food, education, health, infrastructure, and also, in professional training. So, Angola is going to benefit 225 million Euros from a Spanish bank, for road rehabilitation works and other infrastructure in some provinces of the country. The Angolan teachers will be able to do post-graduation courses in business management in Spanish Universities.

- An Indian Company is studying the possibility of reactivating the Angolan textile industry, within the plan of rehabilitation of Africa Textile Company.
- The projects evaluated in 208 million dollars for the re-launch of coffee production, the promotion of a modern management culture within the Angolan business class and in the implementation of infrastructure building will receive funding from India.
- The first salary adjustment for the public service in 2008 was an increase of 8.609 kwanzas, taking into consideration the accumulated and the expected inflation (about 110 dollars in the official exchange).
- The consumer price index in the city of Luanda registered, in the first three months of the year, variations of 0,85% in January and 0,72% in March, inferior to the monthly average rate of 2007, situated in 0,98%. At the end of the first quarter of the year, the accumulated inflation corresponded to 2,46%, inferior to the homologous inflation of the previous year, which was 2,50%.
- The Portuguese foot wear Industry collected 13 million Euros in the export of foot wear to Angola in 2007, corresponding to a growth of 71% in relation to the previous year.
- The German air company started the Frankfurt-Luanda route in a weekly basis.
- Three credit lines have already been allocated by a Chinese bank, the value is 4,5 billion dollars. Other agreements with other institutions make up 9 billion dollars for national reconstruction projects, specially the construction of roads, the energy and water sectors, health, telecommunication and fishing. The investments of the Chinese companies grew from 11 millions in 2006, to 37 millions in 2007, there are now already 31 companies working in the Angolan market.
- A dry harbour is going to be built in the province of Malanje, in accordance with the Angoferro program, for the rehabilitation of the railways, in order to support the reactivation of the regional industries and facilitate the flow of goods to other neighbouring landlocked provinces.
- The Angolan air company (TAAG) started the new routes Luanda-Doula (Cameroon) and Luanda-Cotonou (Benin), expecting to start new routes to the Central West regions of Africa as well as Mozambique.
- The Industrial Fruit Company of Angola (CIFAL), constituted in 1961 in Benguela, will invest 3 million dollars in the rehabilitation and modernization of infrastructure and industrial equipments and in the recovery of farms for agricultural production.
- A beer factory will be built in Bom Jesus, Province of Bengo, by the “*Cervejas de Angola e Distribuição CAN-P/D*”. Another company called CERBAB will start

the production in Cabinda in June, an investment of the Castel Cuca BGI group and Angolan partners.

- By the end of the year, there is the expected rehabilitation of 4,8 thousand kilometres of road out of the country 70 thousand kilometres, one of the longest in the Africa. The Angolan authorities admit the establishment of cooperation agreements with the Portuguese military engineering, which, during the colonial era was responsible for building and maintenance of part of the road network.

## **May**

- The Minister of Transports, Augusto Tomás, indicates the revitalization of ENANA, during a visit to that company of Airport exploration and Air Navigation.
- Minimum Salary grows up 100 %
- The Ministry of Public Administration, employment and Social Welfare stresses the importance of the mandatory social protection.
- Angola's oil production surpasses that of Nigeria; According to data from OPEC, Angola produced an average of 1,873 million barrels of oil, 55 thousand more than Nigeria, which has been the biggest oil producer in Africa since 1978.
- Prime Minister Fernando da Piedade Dias dos Santos demanded rigour in the cooperation between the African States and Japan, at the opening of the IV International Tokyo Conference for Africa Development. The Government approves the project for the rehabilitation of the Kunje Dam.
- Heads of State of the countries from the Southern African Development Community (SADC) gathered in Yokohama, Japan, analysis the crisis in Zimbabwe.
- According to Leonel da Rocha Pinto, director of MULTIPARQUES Company, 70 million dollars will be invested until 2012 in the Luanda dry harbour located in Viana, by the parks management company. The aim of the investment is to facilitate the clearance of containers and ships in the docks of the Luanda Port.
- According to José Massano, chairman of the Executive Commission of the African Investment Bank (BAI), until April 2008, the Bank allocated about 7 billion American dollars in credit to the national economy. He further said that 80% of the credit that his institution offers is for the business sector.
- The cereals transformation factory, CIMOR, produced in the last 9 months over 700 thousand tones of maize meal in Matala, Huila province.

- The Confederation of the Farmers Associations and Agricultural and Cattle breeding Cooperatives of Angola (UNACA) will send Angolans to Brazil, in order to acquire experience in the area, informed the chairperson of the organization.
- An investment of 100 million dollars is being applied in the building of 8 hotels in Huila province, 4 are three stars hotels and the other 5 are five stars.
- The national currency – the kwanza – continues stable for 15 months in relation to the American dollar.
- The Trade and Industry Bank (BCI) may establish financial partnerships with Turk banks. This availability was manifested during the meetings held between the officers of the Angolan institution and Turk banks during the forum “Turkey-Africa: a point for foreign trade”.
- The bank deposits by order multiplied 13 times between 2002 and 2007, reaching the amount of 624 million kwanzas. This news came from the Deputy-Minister of Planning Carlos Alberto Lopes, during the opening ceremony of the workshop on the financing of large projects, which was held in Luanda and organized by the Ministry of Planning and the World Bank.
- The business volume realized between Turkish and African companies reached a value of 15 billion dollars in 2007. This amount represents 5% of the 300 billion dollars from foreign trade.
- The drought that took place in December 2007 and February 2008 in Huila province provoked the scarcity of Agricultural products and a slight increase in the price of such products.
- The Norwegian company Statoil Hydro invested a billion dollars in oil exploration in Angola.
- The Fishing Research Centre (CIP) recommends the Angolan population to stop consuming the Lagocephalus species, commonly known as “Biacu” fish, for being a health risk.

## **June**

- The President of the Republic calls for legislative elections in 5 September 2008.
- According to Joaquim David, Minister of Industry, the Angolan manufacturing industry grew up 32,6% during the 2007 economic year thanks to the performance, determination, and the great capacity of risk management of the national and foreign businessman.
- According to a source from the Ministry of Agriculture, 7. 765 tones of cereals (maize, massango and massambala) were distributed to farmers all over the

country during the last 3 years, by the Rural Development and Extension Program (PEDR).

- The Angolan company Equifogo, supplies 500 fire extinguishers monthly to the Angolan market, with a greater percentage for the country areas of diamond exploration, according to its manager Antonio Barata. Fire extinguishers are manufactured from 1 kilogram to 200 kilograms.
- The public service officers and the economic agents in the Chicomba municipality, Huila province, called on the commercial banks to implement their services in that location. Recently, the economic agents have been walking long distances to do their banking operations.
- Speaking in the opening ceremony of the II Real Estate Forum, Mota Liz, Deputy-Minister of Urban Affairs, Habitation and Architecture of Angola, said that the Angolan government will create a short term legal mechanism that will protect the citizens from the current financial speculations taking pace in the national real estate market.
- The Catoca Mining Society located in the province of Lunda-Sul, invested 20 million dollars in the purchase and fitting up mining belts, a modern technology that provides a better efficiency and fastness in the transport of minerals from the field to the cleaning centres.
- Fishermen organized in cooperatives in the Municipality of Soyo, Zaire province, receive 50 semi-industrial vessels for artisanal fishing. The boats were handed over by the Minister of fisheries Salomão Xirimbimbi.
- The GHASSIST managing director, Manuel Almeida, said that his company has invested 3 million American dollars in the modernization of equipments. GHASSIST is the company that provides airplane assistance services.
- According to the economist and Professor, Justino Pinto de Andrade, Angola leadership in the production and exportation of oil in Africa will attract more investors into the country. Consequently, the revenues from oil activities will be more useful to empowering the segments of the national economy.
- The Agricultural and cattle breeding company (Angolaves) expects to increase its eggs production capacity to 250 thousand eggs a day by the year 2009.
- The project “Aldeia Nova” in Waco-Kungo, province of Kwanza-Sul, produced in 2007 4 million, 700 thousand, and 430 eggs. In the same year also produced 1 million, 943 thousand and 930 Kilograms of meat. Comparing to the previous years, the levels of production achieved a growth of about 40%, as stated by the management assistant Fernando Augusto Júnior.

- The Eximbank from South Korea will finance the building in Angola of an Institute of Information Technology applied to industry. The project is valued in 50 million dollars.

## July

- The head of State visits social housing projects in Luanda.
- The Ministry of Public Works presents the project for the new National Assembly building.
- Government establishes subsidies for political parties.
- The prime-Minister of Portugal, José Sócrates arrives in Luanda bringing in the Agenda, the discussion and the signing of different bilateral agreements in diverse areas.
- The Constitutional Court approves 14 political parties for the legislative elections and hands over the list of the candidate political parties to the National Electoral Commission (CNE). The CNE assorts the position of the political parties in the voting list and the air time on the radio and television. The CNE decides the model of the voting sheet.
- Alberto Chueca, Director of the World Bank Angola, considers that the Angolan economy will slow down the growth rate in 2009, and it may establish itself around 10% and 11%.
- The *Banco de Fomento Angola* (BFA) and the Ministry of Health signed an agreement to finance a project of the Criskari NGO, working in the area of fighting hunger and malnutrition in 70 municipalities of the country.
- According to the deputy General Director of the Wold Bank, Ngozi Okonjo, Angola will have a greater access to the structures of the World Bank, for the fact of the country is emerging in strength and importance, not only in Africa, but also in the whole World. Further, that leader said that the resources the Angolan government has received are being managed very well and in a transparent manner.
- The Total Angola Company will inaugurate within the next three years, the third area of production in bloc 17, the Pazflor, which investment will be around 8,5 billion dollars. However, it will be the double in relation to the second potential, the Dália, which consumed 4 billion dollars.
- Dinho Chingunji, the Minister of Tourism and Hotels, said that the country needs 50 thousand hotel rooms to accommodate the tourists and businessman that are visiting the country every year.

- The business volume between Germany and Angola reached 50 million Euros. Out of this amount, 370 million were exports and 140 million imports.
- The BIC Bank was distinguished with the “Best Bank in Angola prize 2008” by the English magazine “Euro money”, a reference magazine for the international financial markets.
- Angola is the most important economic partner of Norway in Africa. The investments of this country in Angola amount 6 billion American dollars, mainly in the oil sector. In fact, the Norwegian oil company Statoil Hydro is responsible for 11% of the Angolan oil production and it is expected to become an operator of the continental platform, in the new round of concession.
- The National Traffic Directorate registered about 1 million vehicles in the city of Luanda, from 1975 until January 2007. This exact number of vehicles does not, however, corresponds to the reality of the car freight in the city, because there are not statistics related to the exact number of vehicles circulating in the country, considering that some car owners do not pay the duties, stated the institution.
- The Standard Bank of South Africa will open a branch in Angola in the last quarter of this year, stated the Administrative Director, Clive Tasker.
- According to the governor of the National Bank of Angola, Amadeu Maurício, the introduction of new financial products into the market requires an adequate legislation for its safe implementation, in order to strengthen the national financial system.
- The barrel of Brent reached 145,7 American dollars.
- The Huila Province has 92 factories built and recently the sector received the joining of the many ceramic industries and the *nossa terra* Agro-industrial complex. In terms of investments, the statistics point to an amount of 300 million American dollars.
- 2360 tones of coffee will be collected to in the current agricultural year in the municipalities of Amboim, Libolo, Kilenda, Conda, Seles, Ebo, and Waco-Kungo, in the province of Kwanza-Sul.

## **August**

- The government has invested 450 million dollars in the acquisition of vessels for boosting the fishing activity in the country. The equipment comes from China, Polonia, Portugal and Spain.
- The Agricultural mechanization company (Mecanagro) opened a new headquarters in the city of Ndalatando, Province of Kwanza-Norte. The building



of this enterprise with offices, shops, warehouses and spare parts for vehicles and agricultural machines cost over 500 thousand American dollars.

- Angola will export 1,996 million barrels of oil per day in October, a new record that reflects an increase of 14% in relation to the corresponding period.
- According to the Chinese Ambassador in Angola, the Republic of China will invest in the production of rice in the country.
- About 2,5 million dollars were invested this year, by the SONAI business group in the acquisition of machinery for the dressing industry, in order to augment its production.
- The National Customs directorate of Namibe, in coordination with the customs office in Santa-Clara held the first auction market for the products that exceeded the legal deadline of storage.
- According to the president of the Association of Farmers and Agriculture and Cattle Breeding Cooperatives of Angola (UNACA), Paulo Uime, the country needs to establish rural markets to sell the farm products.
- Potential cattle breeders of highly selected species from the South region are engaged in the revamp of the swine, caprine and bovine herds from other parts of the country. The initial steps of this action are being made with the cattle auction fair organized every year.
- The Angolan Chamber of Commerce and Industry has been established in the province of Namibe and its managing staff has been elect.
- The Angolan Business Program (PEA) has implemented projects for the private business sector valued in 4 million American dollars, since its creation in 2004.
- According to studies of Deloitte consultancy, Angola registered a meaningful economic growth in the last three years, situated around 24%, which places the financial sector in a declared stage of expansion. The banking has been increasing since 2004, having achieved 6,5% in 2006. The number of clients has been increasing as well. Furthermore, the study shows that, regardless of the evident growth, other indicators must also be considered, such as the 40,2% of poverty rate and the adult illiteracy rate that reached 67,4%.
- The deposits made in national currency surpass those made in foreign currency. The deposits in kwanza currently reach 58%, compared to 35% in 2006, while the deposits in foreign currency fell from 65% to 42%.
- The Province of Benguela is having an emblematic commercial project called “*Centro de Logística*” (Logistics Centre) that will be built in an area of 10 hectares, including banks, warehouses, guest house, grand hotel, swimming pools

and halls. The initiative came from two leading businessmen, one Angolan and the other Portuguese, who will invest about 25 million dollars.

- The administrator of the United Nations Development Program (UNDP), Kemal Dervis, states that the private sector is a huge resource to explore, in terms of investment and innovation, in order to integrate the poor into the market and achieve the Millennium Development Goals.
- The National Rural Development Program and Poverty Fighting budgeted in 150 million dollars is currently underway in the country, an initiative that is expected to benefit 1 million and 100 thousand people.

### **September**

- The Angolans participate for the second time, after 16 years, in the legislative elections, disputed by 14 political parties.
- The CNE publishes the final results of the September 5 legislative elections and the MPLA is declared the great winner, with 81,64% of the votes.
- UNITEL announces the acquisition of 49% of the BFA shares.
- Angola takes over the presidency of OPEC, the Organization of Petroleum Exporting Countries, for the year 2009 and Sudan, the vice-presidency.
- Five projects within the area of the Industry of production of building construction materials are going to be sponsored by the Angola Development Bank (BDA), in a total of 17,5 million dollars. All projects belong to private companies and will be implemented in the provinces of Luanda and Bengo, corresponding to two ceramic factories, one of plastic artefacts and the other of concrete as well as a unit of raw materials exploration.
- A new city has started to be built by the EFES enterprise company in the municipality of Kilamba Kiayi, with 134 store buildings, for a total of 7200 flats. Social houses will be built in that municipality with financing from Chinese banks.
- In Porto Amboim, province of kwanza-Sul, the first great shipyard was inaugurated in the country, the *PAENAL-Porto Amboim Estaleiros Navais, Limitada*, a company formed by Sonangol in association with a company with headquarters in the Bermudas. With an investment of 208 million dollars, the new will satisfy the growing demand for equipments and naval repairing demanded by the oil and natural gas industry, as well as implement projects of transformation of old super-tankers in production, storage and transshipment. It will facilitate the creation of over a thousand new direct employments.

- The national road Luanda – Huambo was inaugurated, passing through Alto Hama and Waku-Kungo in an extension of over 600 kilometres. The rehabilitation was under the responsibility of the Portuguese company Monte Adriano and MCA-Manuel Couto Alves. The plan of the Angolan Government consists in the rehabilitation of 12 Thousand Kilometres of road and 1.500 bridges until 2012, and the tarring of 4 thousand until the end of this year.
- A tender was launched for the construction of an international highway that will link Cabinda to Soyo, Zaire, the Democratic Republic of Congo. The work will last two years, enabling the linkage of Cabinda to Luanda, with access to the highway Soyo-Kifangondo (Zaire-Bengo). The construction work of the Luanda-Zaire highway has already been initiated under the responsibility of a Chinese company and another Italian company. The highway contemplates the definitive rehabilitation of the bridge over the Mbridge river with six ways, under the responsibility of the Portuguese company Conduril.
- Was inaugurated a system of satellite communication denominated Infraset, which allows an inter-linkage of the whole country, with innovating solutions both for the public sector and the private initiative. Angola will be able to have quality services for the transmission of data and voice, high speed Internet and new television and radio channels. This is a system that puts Angola in the frontline of telecommunication in Africa, facilitating the access to new technological applications, such as tele-medicine and tele-learning. It enables the instalment of telephone booths in the whole country and a system of direct home television with a capacity of 16 channels.
- The sugar production will be implemented in large scale by a Brazilian Company, in partnership with Sonangol and with local producers. The objective is to produce and export ethanol to Europe.
- The World Bank allocated 30 million dollars for the implementation of a project of household Agriculture, oriented by the market, which will benefit 120 families from the provinces of Bié, Huambo and Malanje, with the production limited to subsistence, in order to provide a more sustainable activity and practice, re-launching competitiveness of the Agricultural production in the locations inland.
- Within the *Angola Joven Program*, 400 thousand dollars were allocated to 400 young men and women, gathered in cooperative from the province of Benguela, in different areas of the small scale economy, namely in agriculture, trade, fisheries, construction building material and in transports.

## October

- the new Government is sworn in by the president of the Republic.
- The National Assembly holds the first plenary session. In the same day the new members of the permanent commissions were elected.
- The National Assembly passes the act revoking act nº 18/96, of November 14, in its first session. This act extinguishes the Government of National Unity and Reconciliation (GURN) that had ruled the country for 12 years.
- The Archbishop of Luanda, D. Damião Franklin, confirms the visit of Pope Benedict XVI to Angola I March 2009, invited by the President of the Republic.
- Pitra Neto, the Minister of Public Administration, Employment and Social Welfare announces for 2009 the creation 40 thousand working posts.
- The consultancy company KPMG publishes a study on banking in Angola, in which it is announced that the sector registered an increase of credit to the economy around 85 % and the transformation rate of deposits in credit of 75% in 2007.
- The president of the administrative council of the BIC Bank, considers that the international financial crisis demands pondering by the Angolan banks and financial institutions. The first lesson that the international financial crisis may leave to the Angolan banks is about the profit making manner, stated the banker.
- The City of Luena, province of Moxico, will have new telephone and cell phone systems from Angola Telecom, with the capacity of 1500 lines. The information was given by the local director, Mbungu Lutumba.
- 58 Projects of young businessmen and women received funding this year the from the *Banco de Poupança e Crédito* (The Credit and Saving Bank) (BPC) I the province of Lunda-Norte. The amount was 200 thousand American dollars, within the Government Youth Support Program, “*Angola Jovem*”.
- In The province of Kwanza-Norte, the António de Oliveira Aarão cooperative prepares 10 hectares of land mechanically for fruit plantation, such as oranges, pineapples, bananas, guavas, passion fruits, amongst others. The cooperative pays 25 thousand kwanzas (335 USD) per hectare to the land clearing company.
- A program of the Cabinda Province Government for building Agrarian Development installations (EDA), in the municipalities of the province is being implemented in order to improve technical assistance to the farmers, ensured the local director of Agriculture, Aléctor Araújo.
- In the area of exposition in the sixth edition of the International Fair of Building Construction Materials and Public Works – Constroi Angola, surpasses the

registered past events, in gathering 270 companies in an area of 10 thousand square metres, compared to 230 of the 2007 participation.

- The Minister of Finance, Severim de Morais, ensured that the Country has not applications in risky products in the International Financial Market, and that the best concern is in the fall of oil prices.
- The Namibe National Directorate of Telecommunication collected for the State coffers in the first semester of this year, 647 thousand and 840 Kwanzas from the charging off rent of apparatus and public fax services.
- The country International liquid reserves reached 19,3 billion dollars since December 2007. Considering the value of imports of goods in the previous year, the reserves covered 17 months of imports of goods. The International Monetary Fund (IMF) advises the countries to maintain a minimum level of reserves to import during 5 consecutive months.
- The Portuguese companies specialized in the exploration of wood; intend to invest over 130 million Euros in the Installation of a saw-mill factory, carpentry and furniture in the country.

## **November**

- The 2009 National Plan and National Budget are presented in the parliament.
- The Government ceases the mandate of the TAAG Administrative Council and approves the company clearance program.
- The Ministry of Urban Affairs and Housing, Sita José, announces that the government has already reserved over 100 thousand hectares for building houses for middle and low income families in the whole country.
- The National Committee for Food in Angola (CODEX Angola) – A government multisectorial and multidiscipline organ, with the responsibility to harmonization of international food norms and codes and ensure the establishment of legal practices of trading food products, which intends to build 4 modern laboratories for quality control of products in the main incoming and outgoing points of goods in the country (Luanda, Namibe, Benguela and Cabinda)
- The North American company Eximbamk, sponsored by the North American government will provide support for building a million houses by the year 2012, supplying adequate technology.
- The Minister of Finance, Severim de Morais, admitted that the indication of José Pedro de Morais, ex-Minister of Finance, as the president of the Angolan stock exchange commission, means that this project continues to be a priority of the

Angolan government. The Angolan Stock Exchange and Derivates are already working in an experimental regime, with on line companies, which will in due course be replaced by real companies. Created 5 years ago, the institution is training its staff and supporting the establishment of intermediaries that will operate in the Stock Exchange.

- The vehicle factory, located in the area of Viana, will ensemble annually 3 thousand Nissan cars.
- Imported cement leads the Angolan market. The informal traders wait on the road margin of marginal in Luanda, the cement trucks leaving the Luanda port. The Chinese ship owning company delivers the merchandise in 24 hours.
- The Jolomba group will install new factory units for the production of soap and diverse liquors, still in the current year in the province of Huambo.
- The Portuguese group PROEF is implementing a project of sugar-cane production in the province of Zaire, in an area of more than 20 thousand hectares, including the building of an industrial unit of sugar extraction and the exploitation of by products such as ethanol and electricity.
- 24 community coffee gardens were established in the municipalities of Uíge province, and the rehabilitation of the infrastructure for the experimental station, which will have a laboratory with modern technology for all kinds of analysis. In average 875 tons of coffee are produced annually in this province. This is far from the level of thousands of tons produced in the colonial era.
- Samples of the different varieties of food crops produced in the 18 provinces of the country are being collected and kept in the seeds database of the National Cytogenetic Resource Centre. These seeds have the characteristics of the soil and climate of the locations of origin and will be submitted to multiplication and trials in order to be used in future production.
- The 2009 National Government Plan defines actions intended to generate 320 thousand employments, 40 thousand of which in the public sector, reducing the unemployment rate to about 22,5%. It is estimated that the GDP grows about 11,8%, supported fundamentally by the growth of the non-oil sector, which is expected to increase 15,9%. The inflation rate will keep the growing tendency, and the expected target is 10%.
- An agreement signed between the European Union and the Government of Angola will guide the cooperation in the period 2008 – 2013, within the Cotonou agreement. The European Development Fund allocated 214 million Euros, non-repayable, to support the government in the implementation of the National Indicative Program, in sectors such as governance and institutional reform, economic growth, human, rural and agricultural development, and food security.

## December

- The parliament passes the 2009 National Plan and National Budget, valued in 3,2 trillion kwanzas (about 41 billion American dollars) for revenues and expenses, contemplating money needed for the realization of the presidential elections.
- The President of the Republic starts an official visit to the Peoples Republic of China, and during the opening ceremony of the official talks, he thanks the support provided by that country to the national reconstruction process.
- In the Chinese capital, the two countries signed the Air Transport Agreement, the cooperation Agreement, the Technical and Economic Agreement, and the Cultural Cooperation Agreement.
- The Chinese company, Air China, starts to fly to Angola next year, with a frequency of 7 flights a week. The fact was revealed in Piquing by the Chinese Minister of Civil Aviation, Li Jiexiang.
- The Organization of Petroleum Exporting Countries (OPEC) announced officially at the end of a meeting in Algeria, a reduction of 2,2 million barrels a day in its production. The reduction enters into force from January 1, 2009. According to the cartel, the supply was reduced to 4,2 million barrels/day from September.
- The Ministry of Geology and Mines, Mankenda Ambroise acknowledged that the fall of the diamond prices in the world market caused serious financial problems to the Catoca Mining Society, specialized in prospection, exploration, recovery and trade of diamond.
- According to a study by the BPI Bank, the inflation in Angola will have a fall close to the official objective value of 11%, in case the obstacles related to the supply of goods and services are overcome, namely in regard to logistic constraints and the lack of capacity of the maritime ports in the reception of merchandise, which constrains the supply and the increase of prices to the consumer. Official datum show that the corresponding inflation is stable, situated in 12,9% in September. Nevertheless, in the last months of the year, the price of the food items have been registering a considerable growth, namely in the city of Luanda.
- According to the Ministry of Finance (dispatch n° 37/08), the tariff classification litigation, origin and value of merchandise, previously the competence of the customs directorate is now issues to be resolved by the Higher Technical customs Council, situated in the Luanda Port.
- During the forum on finding ways to Habitation Development in Angola, promoted by the Association of Real Estate Brokers of Angola (APIMA), the

legal bureaucracy relative to the legalization of real estates was indicated as the main hindrance to habitation credit, turning the main difficulty both for the banks and the real estate promoters. The Ministry of Urban Affairs and Environment informed that the constraints in the real estate market will be resolved with the expected approval of the new legal regime of the financial, fiscal and real estate system in the country.

- According to a project of the Ministry of Industry, the municipality of Lucala, province of Kwanza-Norte is going to be transformed into an industrial area. It is a land with abundant hydric and mineral resources, as well as fertile soils for farming.
- In province of Kwanza –Norte was created a cattle breeding cooperative in the Camabatela Plateau, with the head office in Ambaca, which has as the main objective the spread and incentive of the best practices and techniques and bovine cattle breeding and the creation of a meat network in the country.
- According the Food and Agriculture Organization (FAO) and the Organization of Economic Development and Cooperation (OCED), the Portuguese speaking African countries are amongst those that will be affected the most by the increase of food prices, already in the next decade. The studies reveal a gradual increase in the prices of food items until 2017, which will affect particularly the countries that depend on the import of food and too poor to bear the import expenses. Regarding this year, the expenditure of the least developed countries will increase 40% with the import of food, comparing to 2007.
- In January 2009, Angola will take over the presidency of the Organization of Petroleum Exporting Countries (OPEC). The cut in the production of the Petroleum exporting countries submits Angola to a daily production of 1,9 million barrels, corresponding to a reduction of about 99 thousand barrels a day, which is considered as a not risking the country macro-economic scenario, given the dynamism of the other sectors of economic activity. It is believed, however, that the fall in the production and prices will have its effects, fundamentally at the social level, demanding the revision of the 2009 budget.
- The World Bank has manifested its availability to cooperate with the Angolan government in the area of gas, for the energetic growth of the country.
- A gas processing platform (TGPP) was inaugurated in Cabinda, which will have the advantage the elimination of gas flaring in the respective offshore field. This enterprise will bring more profitability of the resources from gas, will supply raw material to the gas factory being built in Soyo (province of Zaire) and will ensure over ten thousand barrels of natural gas daily, to the Malongo operational base.
- The rehabilitation and enlargement work of the Lomaum and Biópio hydroelectric dam of, in the province of Benguela will be started in 2009 and will take three



years. On the other hand, the study of a project for a new dam in Cacongo is underway, intended to regulate the flow of the Catumbela river and the water levels of the other dams.

- The agricultural sector will grow over 20% in 2009, due to the investments made by the government, in creating the modernization of supporting infrastructure for agriculture, namely in the creation of irrigated perimeters and research centres.
- Sonangol has over 30 subsidiaries, through which it has expanded its activity in areas such as prospection, research, development, commercialization, production, transport, and the refining of hydrocarbons and the by products. Sonangol international presence is registered in countries such as the United Kingdom, Congo, China, Singapore, and the United States of America. In Portugal it has an indirect participation in Galp, through the Amorim Energy, and it is one of the major shareholders of the Millennium BCP, with participation of almost 10% of capital.
- The first private television in Angola – TV Zimbo – started its broadcastings with entertaining, fiction and information programs, for which it has 60 journalists trained in Portugal and in the Journalists training centre in Luanda.
- The Economist and Professor Alves da Rocha estimate that the economy of Angola will increase 6,3% in 2009, contradicting the 11,8% of the official estimates.
- The crude prices are high in the international markets, due to the fear of the investors that the Israeli air bombardments in the Gaza Strip may bring disturbances in the supplies from the Middle East, considering that the attacks are causing great resentment in the Islamic world. The Brent is 43,18 usd and the West Texas is 40,33 usd, increase of 5,75 % and 6,95%, respectively.

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