The Angolan Economy

Lower oil prices hit 2015 accounts?

Research
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Economics
Tiago Bossa Dionísio
(+351) 211 214 431
tiago.dionisio@eaglestone.eu

Local authorities foresee strong growth in 2015
The Angolan authorities expect real GDP growth in the country to surge to 9.7% in 2015. This figure is included in the Budget 2015 proposal recently delivered to the National Assembly. It is well ahead of the forecasts recently released by the IMF (5.9%) and the EIU (4.8%) and compares with the 4.4% estimated for this year. This growth assumption is based on a strong recovery in the oil sector (10.7% vs. -3.5% in 2014) as well as continued robust non-oil sector growth (9.2% from an already strong 8.2% expansion in 2014).

Oil production recovers, but lower oil prices hurt fiscal revenues
The government forecasts an improvement in oil production from 1.66 million bpd this year to 1.83 million in 2015 (the target of 2 million bpd is postponed to 2016). However, it also expects average oil prices to fall 22% to US$ 81 per barrel next year, which should have a material impact on fiscal revenues. Taxes from the oil sector are expected to fall 16.3% YoY and represent 61% of total revenues in 2015. This compares with an average of 75% of total revenues in the previous three years.

Budget deficit expected to reach 7.6% of GDP, a post-war high
The 2015 budget proposal foresees a significant deterioration in the fiscal deficit to AOA 1,031 billion (or 7.6% of GDP from an estimated 0.2% in 2014). This is the highest level since the end of the civil war in 2002. Total revenues are expected to fall 3.9% YoY while expenditures should see a 19.1% increase. Current expenditures will remain the lion's share of the government's total spending (nearly 74% of the total). They are forecasted to rise 15.8% YoY, going against the IMF's suggestion to moderate the growth of the wage bill as well as spending on goods and services. Capital expenditures, namely public investment rebounds after a drop in 2014. Also worth noting on the positive side (and in contrast to the 2014 budget) is the increase in spending in the social sector, namely on education, health and social protection.

Current backdrop requires extra care in managing public accounts
While public debt levels remain sustainable (even after a likely increase to 35.5% of GDP vs. 29.2% in 2014) and the growth outlook relatively favorable, the months ahead will require particular attention from the Angolan authorities regarding the management of the country's public accounts. This has become increasingly important bearing in mind the likely impact that lower oil prices will have on fiscal revenues going forward as well as the continued high demand for increased public spending on infrastructure and poverty reduction projects. As was the case in the 2008-09 crisis, which saw Angola recording budget deficits in both years and seeking IMF assistance in 2009, we hope that the significant deterioration in the budget deficit projected for 2015 is a one-off and that the country quickly returns to budget surpluses in the medium-term.

THE BUDGET 2015 PROPOSAL

The government delivered its proposal for the Budget 2015 to Parliament at the end of October

The Angolan government delivered its Budget 2015 proposal to the National Assembly on October 31st. In the document, the authorities expect real GDP growth to surge to 9.7% next year, well ahead of the 4.4% estimated for 2014, and the forecasts recently disclosed by several international institutions, including the International Monetary Fund (IMF). This growth assumption is based on a strong recovery in oil sector related GDP (10.7% vs. -3.5% in 2014), but also continued robust non-oil sector growth (9.2% from an already strong 8.2% in 2014).

Oil production is expected to improve in 2015, but oil prices are most likely to fall and have a significant impact on fiscal accounts

The government foresees an improvement in oil production from 604.4 million barrels this year to 669.1 million in 2015. However, it also expects oil prices to fall in the period (from US$ 104 per barrel this year to US$ 81 in 2015). This 22% drop in oil prices will have a material impact on the government's fiscal accounts that are reflected in the significant deterioration in the budget deficit from an estimated 0.2% of GDP this year to 7.6% in 2015.

The document is currently under negotiation and is expected to be approved by mid-December

The table below includes the main assumptions for next year's budget proposal. We note that the document is currently under discussion in Angola, with its final approval (and publication into law) expected to occur in mid-December.

BUDGET 2015 ASSUMPTIONS	2012	2013	2014E	2015 (1)	2016 (2)	2017 (2)
Inflation	9.0%	7.7%	7.5%	7.0%	7.0%	7.0%
Annual oil production (million)	631.8	626.3	604.4	669.1	760.4	686.0
Average daily oil production (million bpd)	1.73	1.72	1.66	1.83	2.08	1.88
Average oil price (US$ per barrel)	111.6	107.7	104.0	81.0	89.9	89.4
Gross domestic product:						
Nominal value (AOA billion)	10,876.0	12,056.3	12,713.2	13,480.9	16,808.8	18,513.0
Real GDP growth	5.2%	6.8%	4.4%	9.7%	7.5%	4.3%
Oil sector	4.3%	-0.9%	-3.5%	10.7%	3.8%	-9.8%
Non-oil sector	5.6%	10.9%	8.2%	9.2%	9.2%	10.4%
Non-oil primary balance (% of non-oil GDP)	-55.5%	-48.3%	-47.3%		-25.2%	-19.5%
Net international reserves (US$ million)	30,632.3	30,945.3	28,756.1	-	50,571.5	53,890.5
Exchange rate (vs. US$)	95.4	96.6	97.8	99.1	100.1	102.7
Growth in M2	33.5%	15.2%	20.2%	16.0%	15.6%	13.5%
Net direct investment (US$ million)	1,119.78	-13,164.18	-10,242.25	-	3,139.18	6,264.02

(1) Budget 2015; (2) National Development Plan (2013-17). Source: Angolan authorities.

ECONOMIC OUTLOOK

The Angolan economy is expected to slow down markedly in 2014 from the previous year

The Angolan economy has slowed considerably in 2014 relatively to the previous year. The forecasts included in the Budget 2015 proposal suggest that real GDP will advance 4.4% this year, below a reported growth rate of 6.8% in 2013. This estimate is more optimistic than the 3.9% forecasted by the IMF in its latest World Economic Outlook (October 2014), but it is much lower than the 8% predicted in the government's National Development Plan (2013-17) document released at the end of 2012.

The local authorities foresee real GDP growth of 9.7% in 2015

We also note from the table below that the Angolan government is forecasting a real GDP growth of 9.7% for 2015, as economic activity is expected to be bolstered by a strong recovery in oil related output and continued strength in the non-oil sector. This figure is well above all of the forecasts recently released by other international institutions and the projected growth of 8.8% in the National Development Plan (2013-17).

REAL GDP GROWTH FORECASTS	2012	2013	2014F	2015F
Angolan authorities				
Budget 2015	5.2%	6.8%	4.4%	9.7%
National Development Plan (2013-17)	7.4%	7.1%	8.0%	8.8%
International Monetary Fund (October 2014)	5.2%	6.8%	3.9%	5.9%
Economist Intelligence Unit (October 2014)	5.2%	6.8%	4.3%	4.8%
African Development Bank (June 2014)	5.2%	5.1%	7.9%	8.8%
World Bank (June 2014)	5.1%	4.4%	5.4%	5.5%

Source: Angolan authorities, IMF, EIU, AfDB and World Bank.

Operational problems in the oil sector have had an impact on oil GDP

The deceleration in economic activity in 2014 comes on the back of the continued contraction in the oil sector that has occurred in recent years (with the exception of the period 2012-13).

The latest performance of the oil sector has been negatively impacted by operational problems, namely maintenance related operations that have hurt production in several oil blocks in the country. However, the local authorities note that the CLOV (Cravo, Lirio, Orquidea and Violeta) project is now operational and believe that it will bring an additional 160,000 barrels per day (bpd) of oil in peak production. This would help increase the total annual oil production in the country from 604.4 million barrels this year to an estimated 669.1 million barrels in 2015. Oil GDP is therefore projected by the Angolan authorities to rise 10.7% in 2015 as a result of this higher production.

Non-oil GDP growth is expected to accelerate to 9.2% in 2015

Meanwhile, non-oil GDP has posted an average growth of 8.5% during the period 2009-13, with this average being negatively impacted by a relatively weaker 5.6% growth in 2012. The Angolan authorities forecast an expansion of 8.2% in non-oil GDP in 2014 and a slight pick-up in activity to 9.2% in 2015.

Agriculture has seen a volatile performance in recent years

The recent performance of the agriculture sector has been one of the main determinants of the evolution of the non-oil sector. Agriculture represents about 12% of the Angolan GDP and the volatility it has shown in recent years has had a major impact on non-oil GDP. For instance, the severe droughts witnessed in many parts of Angola during 2012 had a profound effect on the performance of the sector (-22.5% in 2012). However, better climate conditions in 2013 led to a significant recovery in agricultural activity (42.3%) that has continued in 2014, with the local authorities envisioning an increase of 11.9% in agriculture output this year and 12.3% in 2015.

GROWTH FORECASTS

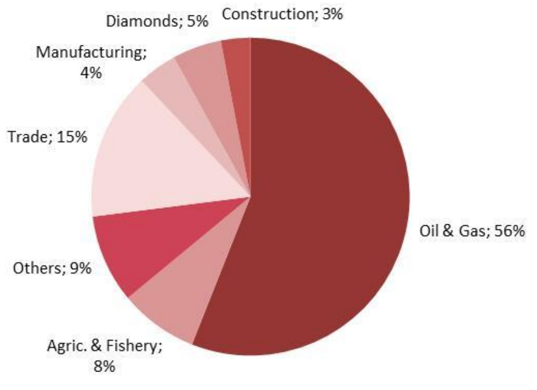
	2009	2010	2011	2012	2013	2014F	2015F
Real GDP	**2.4%**	**3.4%**	**3.9%**	**5.2%**	**6.8%**	**4.4%**	**9.7%**
Oil Sector	-5.1%	-3.0%	-5.6%	4.3%	0.9%	-3.5%	10.7%
Non-oil sector	8.3%	7.8%	9.7%	5.6%	10.9%	8.2%	9.2%
Sectors							
Agriculture	29.0%	6.0%	9.2%	-22.5%	42.3%	11.9%	12.3%
Fishing	-8.7%	1.3%	17.2%	9.7%	2.4%	5.3%	3.3%
Diamonds and other	4.6%	-10.3%	-0.7%	0.3%	3.3%	1.0%	0.7%
Manufacturing	5.3%	10.7%	13.0%	14.0%	8.6%	8.1%	11.2%
Construction	23.8%	16.1%	12.0%	11.7%	8.1%	8.0%	10.5%
Energy	21.3%	10.9%	3.5%	10.4%	34.4%	17.3%	12.0%
Commerce	-1.5%	8.7%	9.5%	13.4%	7.0%	8.0%	9.0%
Other	5.9%	4.7%	9.6%	8.3%	0.7%	6.0%	4.5%

Source: Angolan authorities.

The manufacturing, trade and construction sectors are also expected to boost non-oil growth

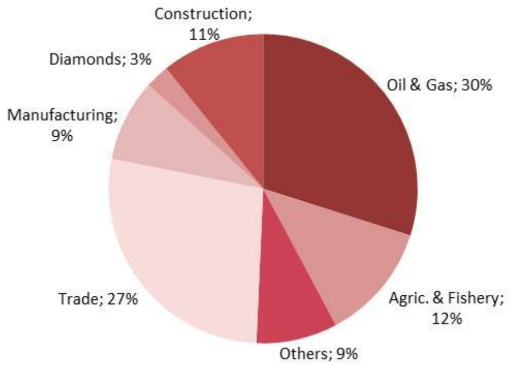
Apart from agriculture, the non-oil sector is also expected to benefit from strong contributions in the trade, manufacturing and construction sectors in 2014-15. According to the government, these sectors should represent 27%, 9% and 11% of the country's GDP in 2014, respectively. This represents a material change from the GDP structure that the country had in the year 2002.

GDP STRUCTURE (2002)



Source: Angolan authorities.

GDP STRUCTURE (2014F)



Source: Angolan authorities.

The government is more upbeat for 2015 in the budget proposal than in the targets set in the National

All in all, we highlight that in 2013 the Angolan economy expanded relatively in line with the target of 7.1% set in the National Development Plan (2013-17). Also, the forecasts included in the government's 2015 budget proposal are more pessimistic for 2014 when compared with the estimates of the National Development Plan (2013-17). This lower figure comes mostly from an 8% downward revision in oil related output, but also 1.5% lower non-oil sector growth. However, the estimates envisioned for 2015 are slightly more upbeat in the budget proposal due to a rather more optimistic forecast for the oil sector (10.7% vs. a 4% target in the National Development Plan) that more than offsets a lower forecast for the non-oil sector.

Development Plan

GROWTH FORECASTS (1)

	2012F	2013F	2014F	2015F
Real GDP				
Budget 2015	5.2%	6.8%	4.4%	9.7%
National Development Plan (2013-17)	7.4%	7.1%	8.0%	8.8%
Difference	*-2.2%*	*-0.3%*	*-3.6%*	*0.9%*
Oil Sector				
Budget 2015	4.3%	0.9%	-3.5%	10.7%
National Development Plan (2013-17)	4.3%	6.6%	4.5%	4.0%
Difference	*0.0%*	*-5.7%*	*-8.0%*	*6.7%*
Non-oil Sector				
Budget 2015	5.6%	10.9%	8.2%	9.2%
National Development Plan (2013-17)	9.1%	7.3%	9.7%	11.2%
Difference	*-3.5%*	*3.6%*	*-1.5%*	*-2.0%*

(1) 2012 and 2013 figures for the Budget 2015 proposal are final. Source: Angolan authorities.

The year 2014 has also been marked by the implementation of a new customs tariffs book in Angola ("Pauta Aduaneira") aimed at promoting national production. One of the consequences of the new tariff book would be an immediate spillover effect in the prices of local production that had to compete with imported goods that would now be subject to higher import rates. As a result, the announcement of a new customs tariffs book potentially increased the expectations of market participants that the inflation rate in the country would worsen.

Inflation has kept its downward trajectory despite the introduction of a new customs tariffs book

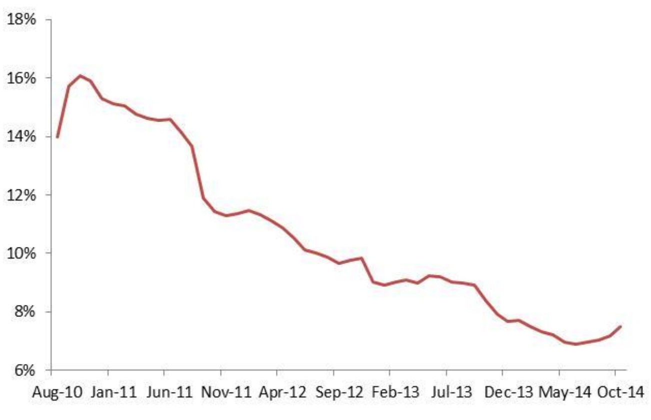
However, the latest figures show that inflation has kept its downward trajectory this year after reaching single-digits for the first time at the end of 2012. Data from the National Statistics Institute (INE) showed that inflation reached 7.48% in October 2014 (vs. 7.19% in the previous month), which is below the 8% forecast set in the Budget 2014 and the target in the National Development Plan (2013-17). Having said that, the inflation rate in Angola remains highly dependent on the price of food and non-alcoholic beverages, as this item accounted for 33% of the change in the inflation rate in October. This is partly reflected by the fact that the country still faces structural challenges in terms of logistics that translate into higher transaction costs for certain items like food and beverages.

The inflation rate stood at 7.48% in October 2014, below the target set in the Budget 2014

In the budget proposal for 2015, the Angolan authorities expect inflation to end this year at 7.5% and to decline to 7% in 2015. We note that the inflation targets set by the government in the budget proposal and the National Development Plan (2013-17) are very much in line with the forecasts recently disclosed by the IMF.

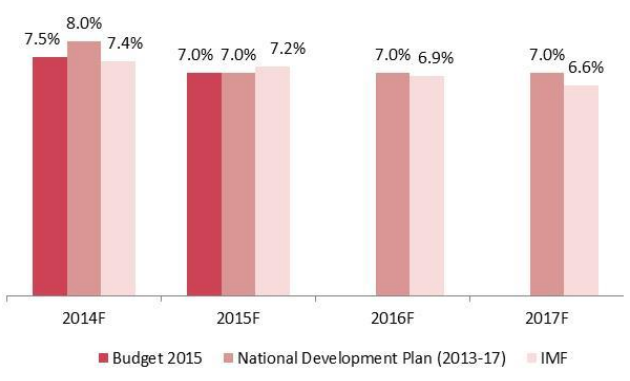
Inflation is expected to stand at 7% in the period 2015-17

CONSUMER PRICE INDEX (YOY CHANGE)



Source: INE.

INFLATION TARGETS



Source: Angolan authorities and IMF.

FISCAL ACCOUNTS

Lower oil production (and revenues) are expected to greatly impact Angola's fiscal accounts in 2014

Angola's fiscal accounts have been greatly impacted by the downward revision of about 7.7% in the forecasted oil production of the country this year that, as mentioned earlier, resulted from operational problems at some of the oil blocks. They have, however, benefited from the fact that the average oil price has remained above US$ 104 per barrel up until the third quarter of the year (vs. an estimated US$ 98 in the 2014 budget proposal). Recent developments in international markets have also had an impact on the supply of oil and, consequently, on its price. The latest projections by the Angolan government foresee lower than initially expected oil revenues in the last three months of 2014 and, as a result, total revenues for this period are expected to be 6.3% lower than the revenues posted in the third quarter.

Total revenues are forecasted to fall by 10.1% YoY in 2014 (a shortfall of 8.2% from the initial budget proposal)

Overall, the government expects total revenues to fall by 10.1% YoY to AOA 4,357 billion in 2014 and to represent 34.3% of GDP. This is 8.2% less than the budget proposal for 2014 and comes mostly as a result of lower tax revenues from the oil sector in the period (-16% from 2013 and an 8% shortfall from the budget proposal). We note that oil taxes are still estimated to account for more than 73% of total tax revenues in 2014 (vs. 78.9% in 2013 and 85% in 2012).

The cut in expenditures is mostly due to lower spending in G&S and a lower execution in public investment

On the expenditure side, the local authorities see a fall of 9% in total spending from 2013 to AOA 4,381 billion (34.5% of GDP) and 18.5% less than the initial budget proposal for 2014. This cut in expenditures is mostly due to lower spending in goods and services (-12.2% YoY and -24.6% from the initial budget) as well as lower execution in terms of capital expenditures, namely public investment (-25.3% YoY and -29% vs. initial budget for 2014).

The estimated budget deficit for 2014 stands at 0.2% of GDP (vs. 4.9% initially expected)

That said, the local authorities estimate a total budget deficit of only AOA 24 billion (or 0.2% of GDP) for 2014, which is much lower than the 4.9% initially expected in the budget proposal for 2014 presented a year ago. In other words, the government has cut spending in 2014 by about AOA 1 billion (AOA 4,381 billion from AOA 5,375 billion in the budget proposal) in order to offset the lower than initially expected revenues, namely from the oil sector. This forecast of -0.2% for this year compares with a slight budget surplus of 0.3% of GDP in 2013.

The 2015 budget proposal foresees a fiscal deficit of 7.6% of GDP, the largest in the post-war period

Looking into 2015, the budget proposal foresees a significant deterioration in the fiscal deficit to AOA 1,031 billion (or 7.6% of GDP), which is the highest level since the end of the civil war in 2002. This is due to a 3.9% drop in revenues to AOA 4,185 billion and a strong increase of 19.1% in expenditures to AOA 5,216 billion in the period. Revenues and expenditures are therefore expected to represent 31.0% and 38.7% of GDP, respectively.

GOVERNMENT ACCOUNTS

AOA BILLION	2012 Executed	2013 Executed	2014 Budget	2014 Estimate	2015 Budget	2014 Est. / 2013 Exec.	2014 Est. / 2014 Bud.	2015 Bud. / 2014 Est.	2015 Bud./ 2014 Bud.
Revenues and Grants	**5,054**	**4,849**	**4,745**	**4,357**	**4,185**	**-10.1%**	**-8.2%**	**-3.9%**	**-11.8%**
% of GDP	*46.5%*	*40.2%*	*37.0%*	*34.3%*	*31.0%*				
Tax Revenues	4,826	4,602	4,540	4,163	3,969	-9.5%	-8.3%	-4.7%	-12.6%
Oil Revenues	4,103	3,630	3,313	3,048	2,551	-16.0%	-8.0%	-16.3%	-23.0%
% of Total Tax Revenues	*85.0%*	*78.9%*	*73.0%*	*73.2%*	*64.3%*				
Non-oil Revenues	723	972	1,227	1,115	1,417	14.7%	-9.1%	27.1%	15.5%
Of which: Income Taxes	325	502	527	n.a.	642	n.a.	n.a.	n.s.	21.7%
Non-tax Revenues	228	244	205	191	216	-21.8%	-6.8%	13.4%	5.6%
Expenditures	**4,329**	**4,816**	**5,375**	**4,381**	**5,216**	**-9.0%**	**-18.5%**	**19.1%**	**-3.0%**
% of GDP	*39.8%*	*39.9%*	*41.9%*	*34.5%*	*38.7%*				
Current Expenditures	3,184	3,437	3,674	3,324	3,848	-3.3%	-9.5%	15.8%	4.7%
Wages	1,031	1,155	1,369	1,284	1,566	11.2%	-6.2%	21.9%	14.3%
Goods and Services	1,297	1,228	1,431	1,079	1,374	-12.2%	-24.6%	27.4%	-3.9%
Interests	105	99	128	148	231	48.9%	15.7%	56.5%	81.0%
Transfers	752	955	746	813	678	-14.9%	8.9%	-16.6%	-9.2%
Capital Expenditure	1,145	1,379	1,701	1,057	1,367	-23.3%	-37.9%	29.3%	-19.6%
Public Investment	1,145	1,208	1,271	902	1,103	-25.3%	-29.0%	22.2%	-13.2%
Primary Fiscal Balance	**1,869**	**1,411**	**1,071**	**1,034**	**337**	**-26.8%**	**-3.5%**	**-67.4%**	**-68.6%**
% of GDP	*17.2%*	*11.7%*	*8.4%*	*8.1%*	*2.5%*				
Overall Fiscal Balance	**725**	**32**	**-630**	**-24**	**-1,031**	**n.m.**	**-96.2%**	**4249.8%**	**63.6%**
% of GDP	*6.7%*	*0.3%*	*-4.9%*	*-0.2%*	*-7.6%*				
Non-oil Primary Balance	**-3,273**	**-3,499**	**-3,816**	**-2,924**	**-3,351**	**-16.4%**	**-23.4%**	**14.6%**	**-12.2%**
% of non-oil GDP	*-55.5%*	*-48.3%*	*-45.1%*	*-35.8%*	*-35.2%*				
Non-oil Total Balance	**-3,378**	**-3,598**	**-3,943**	**-3,072**	**-3,582**	**-14.6%**	**-22.1%**	**16.6%**	**-9.2%**
% of non-oil GDP	*-57.3%*	*-49.7%*	*-46.6%*	*-37.6%*	*-37.7%*				

Source: Angolan authorities.

In terms of revenues, we note that tax revenues coming from the oil sector are anticipated to fall by 16.3% YoY and represent 64.3% of total tax revenues (and 61% of total revenues) in 2015. This comes despite an expected increase in oil production next year, which should prove to be insufficient to offset the impact of a 22% cut in predicted oil prices (average of US$ 81 per barrel in 2015 vs. US$ 104 this year). This shows how the Angolan fiscal accounts remain highly dependent on the oil sector and that the existing risks to the outlook on oil prices may jeopardize the government's revenue targets for 2015.

Revenues are expected to fall in 2015 as a result of lower tax revenues from the oil sector

On the other hand, the government expects the tax revenues from the non-oil sector to advance 27.1% from the previous year, as these reflect the structural reforms that the local authorities are implementing in order to increase tax collection outside of the oil sector. Non-tax revenues are also anticipated to improve next year, but these represent only 5.2% of the total forecasted revenue collection for the period.

Structural reforms aimed at improving tax collection are expected to have marginal (but positive) effect on total revenues

GOVERNMENT REVENUES									
AOA BILLION	2012 Executed	2013 Executed	2014 Estimate	2015 Budget	2015/2014	% of Total Revenues 2012	2013	2014	2015
Tax Revenues	4,826	4,602	4,163	3,969	-4.7%	95.5%	94.9%	95.5%	94.8%
Oil Revenues	4,103	3,630	3,048	2,551	-16.3%	81.2%	74.9%	70.0%	61.0%
Of which: Concessionary Rights	2,800	2,446	2,043	1,890	-7.5%	55.4%	50.4%	46.9%	45.2%
Non-oil Revenues	723	972	1,115	1,417	27.1%	14.3%	20.1%	25.6%	33.9%
Of which: Income Taxes	325	502	n.a.	642	n.m.	6.4%	10.3%	n.m.	15.3%
Non-tax Revenues	228	247	194	216	11.5%	4.5%	5.1%	4.5%	5.2%
Total Revenues	**5,054**	**4,849**	**4,357**	**4,185**	**-3.9%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Angolan authorities.

Meanwhile, current expenditures will unfortunately continue to represent the lion's share of the government's total spending (nearly 74% of the total). Specifically, wages (30% of the total) are expected to increase 21.9% from the previous period while spending on goods and services (26.4% of the total) is also anticipated to see a marked increase of 27.4%. This goes against the message recently passed by the IMF in its latest report on Angola requesting that the local authorities moderate the growth of the wage bill and spending on goods and services in order to improve the fiscal position of the country.

Current expenditures will continue to account for a large share of government spending

GOVERNMENT EXPENDITURES									
AOA BILLION	2012 Executed	2013 Executed	2014 Estimate	2015 Budget	2015/2014	% of Total Expenditures 2012	2013	2014	2015
Current Expenditures	3,184	3,437	3,324	3,848	15.8%	73.6%	71.4%	75.9%	73.8%
Wages	1,031	1,155	1,284	1,566	21.9%	23.8%	24.0%	29.3%	30.0%
Goods and Services	1,297	1,228	1,079	1,374	27.4%	30.0%	25.5%	24.6%	26.4%
Interests	105	99	148	231	56.5%	2.4%	2.1%	3.4%	4.4%
Transfers	752	955	813	678	-16.6%	17.4%	19.8%	18.6%	13.0%
Capital Expenditure	1,145	1,379	1,057	1,367	29.3%	26.4%	28.6%	24.1%	26.2%
Total Expenditures	**4,329**	**4,816**	**4,381**	**5,216**	**19.1%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Angolan authorities.

When looking at expenditures by activity, we note that the Angolan authorities are planning to allocate more public funds toward the social sector of the country, which we see as positive news in this budget proposal. Areas such as education, health and social protection are all expected to see a significant increase in spending in 2015, as detailed in the table below. We see this as a step in the right direction of the dual aim of reducing poverty and improving the living conditions of the local population. Other areas like the defense and security sectors will see a cut in public spending.

Spending on education, health and social protection will see a significant increase in 2015

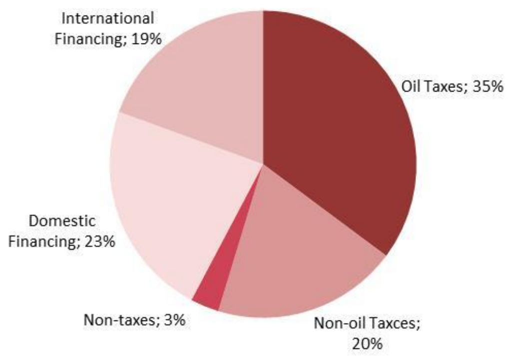
EXPENDITURES BY ACTIVITY									
AOA BILLION	Budget				2015 /	% of Total Expenditures			
	2012	2013	2014	2015	2014	2012	2013	2014	2015
Social Sector	1,492	2,226	2,175	2,427	11.6%	33.1%	33.6%	30.0%	33.5%
Education	377	586	448	658	47.0%	8.4%	8.8%	6.2%	9.1%
Health	231	369	316	405	28.4%	5.1%	5.6%	4.3%	5.6%
Social Protection	570	737	697	928	33.2%	12.7%	11.1%	9.6%	12.8%
Housing	183	312	572	353	-38.2%	4.1%	4.7%	7.9%	4.9%
Other	70	82	85	82	-3.7%	1.6%	1.2%	1.2%	1.1%
Economic Sector	449	1,218	1,424	1,051	-26.2%	10.0%	18.4%	19.6%	14.5%
Defense	396	588	673	531	-21.0%	8.8%	8.9%	9.3%	7.3%
Security and Social Order	285	583	521	492	-5.7%	6.3%	8.8%	7.2%	6.8%
General Public Services	1,879	2,020	2,465	2,696	9.4%	41.7%	30.4%	34.0%	37.2%
Environmental Protection	60	141	58	55	-5.1%	1.3%	2.1%	0.8%	0.8%
Total Expenditures	**4,501**	**6,636**	**7,258**	**7,252**	**-0.1%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Angolan authorities.

The Angolan government will continue to rely on a significant contribution of fiscal revenues, namely tax income coming from the oil sector, in order to finance its spending plans. However, the budget proposal for next year also foresees an increase in public debt. In dollar terms, the government estimates that public debt will increase to US$ 48.3 billion in 2015 from US$ 37.9 billion this year or, in other words, it will increase to 35.5% of GDP from 29.2% in 2014.

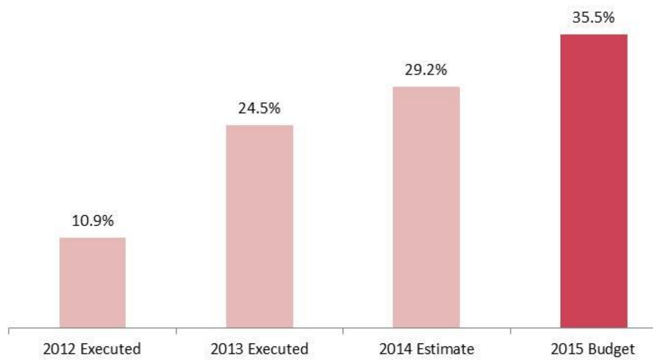
Public debt is expected to increase to 35.5% of GDP in 2015 (vs. 29.2% this year)

GOVERNMENT FINANCING – 2015 (AOA 7,252 BILLION)



Source: Angolan authorities.

PUBLIC DEBT (% OF GDP)



Source: Angolan authorities.

All in all, even though the growth prospects of the country remain favorable, the months ahead will require particular attention from the Angolan authorities regarding the management of the country's public accounts. This has become increasingly important bearing in mind the likely impact that lower oil prices will have on fiscal revenues going forward as well as the continued high demand for increased public spending on infrastructure and poverty reduction projects. As was the case in the 2008-09 crisis, which saw Angola recording budget deficits in both years and seeking IMF assistance in 2009, we hope that the significant deterioration in the budget deficit projected for 2015 is a one-off and that the country quickly returns to budget surpluses in the medium-term.

The year 2015 will be particularly challenging for the government in the management of its public accounts

ANNEX - ANGOLAN TAX REFORM

The Angolan government is in the process of reforming the country's tax system. This has been an ongoing process that began in 2011. The key objectives of this reform are to (1) update the tax rules that were based on outdated legislation and (2) increase non-oil related tax revenues. The local authorities have also invested heavily on information systems and human resources that will assist in implementing the new tax legislation. They hope that a more transparent and modern tax system will help attract more foreign investment.

The Angolan government is reforming the country's tax system with the aims of updating the tax rules and increasing non-oil related tax revenues

The Angolan authorities have published on 22 October 2014 the following tax codes that are expected to come into force on 1 January 2015:

- Law 18/2014 on Personal Income Tax (*Código do Imposto sobre os Rendimentos do Trabalho*);
- Law 19/2014 on Industrial Tax (*Código do Imposto Industrial*);
- Law 20/2014 on Tax Collection (*Código das Execuções Fiscais*);
- Law 21/2014 on General Tax (*Código Geral Tributário*).

Moreover, amendments were made to the Capital Application Tax Code (Código do Imposto sobre a Aplicação de Capitais) on 20 October 2014 and the Stamp Duty Code (Código do Imposto de Selo) on 21 October 2014.

PERSONAL INCOME TAX CODE

The Personal Income Tax (PIT) code segments the different types of income into three taxation groups. First, Group A includes the remuneration earned by employees (paid by an employer entity) as well as the remuneration earned by public servants. The taxable income is determined by deducting from the gross earnings the mandatory contributions to Social Security and the remuneration components not subject or exempt from PIT. There are progressive PIT rates from 0% to 17%, according to taxable income. The income below AOA 34,450 is now exempt from PIT (the previous minimum level was AOA 24,450).

Group A of the PIT code includes remuneration earned by employees (paid by an employer entity) as well as remuneration earned by public servants

Second, Group B includes the remuneration received by self-employed workers as well as remuneration earned by directors and members of the board or of other statutory bodies. The taxable income of this group corresponds to 70% of the earnings, when these are paid by companies or by individuals with organized accounting. For the remaining cases, the income is determined based on the accounting, on the taxpayers' accounting records, on records available for the purchases, sales and services provided, or on the information the Tax Administration has available. The deduction of expenses related to the respective activity (or expressly foreseen in the Code), up to the limit of 30% of the gross earnings of the taxpayer, is still available. The incomes of Group B are subject to a single rate of 15%.

Group B includes remuneration received by self-employed workers

And Group C includes all the remuneration earned as a result of the development of industrial and commercial activities. The taxable income corresponds to the amounts indicated in the Table of Minimum Profits, apart from a few exceptions where the taxable earnings correspond to the amount of the sales and services provided. A tax rate of 30% is charged for the cases in which the taxable income corresponds to the amounts included in the Table of Minimum Profits and, for the remaining cases, a rate of 6.5% (harmonized with the Industrial Tax rules).

Group C includes all remuneration earned as a result of the development of industrial and commercial activities

INDUSTRIAL TAX CODE

In the Industrial Tax (IT) code, the tax groups are now limited to two (Groups A and B), with entrepreneurial income (up until now included in Group C) excluded from this regime and subject to PIT. The thresholds for entities mandatorily included in Group A are updated to a share capital exceeding AOA 2,000,000 or total revenue exceeding AOA 500,000,000. Taxpayers may choose to be included in Group A if a written request is submitted to the competent Tax Office by the end of February (previously January) of each fiscal year. The tax regime for Group B remains as a subsidiary regime and is applicable to all taxpayers not covered by the criteria set for Group A.

The Industrial Tax (IT) code has two tax groups (A and B)

The IT rate is lowered from 35% to 30% and may be further reduced for companies operating

The IT rate was lowered

under licensed private investment projects. This rate will start to be implemented on 1 January 2015. However, the IT rate of 30% is already applicable to the 2014 fiscal year. Moreover, withholding tax rates applicable to construction contracts and subcontracts and to the rendering of services remain at 3.5% and 5.25%, respectively, in 2014.

from 35% to 30% and is already applicable to the 2014 fiscal year

TAX COLLECTION CODE

The Tax Collection code includes a tax amnesty for tax debts prior to 31 December 2012. This encompasses debts concerning Industrial Tax, Personal Income Tax, Property Tax, Stamp Duty and Investment Income Tax. It includes the tax due as well as interest and fines. If the Angolan state has debts towards the tax payer, including non-tax related, these debts will, as part of the amnesty, be offset against the taxes that would have been otherwise payable by the taxpayer.

The Tax Collection Code includes a tax amnesty for tax debts prior to 31 December 2012

The taxpayers who may benefit from the tax amnesty are those included in the regime except for (1) public and private companies whose capital is mostly public, (2) oil and mining sector companies (that are subject to special tax regimes) and (3) companies whose activity includes the treatment, storage, export, transport, refinement, transformation, distribution or sale of any oil derivatives.

Tax amnesty applies for all companies except public companies and those active in the oil, gas or mining sector

CAPITAL APPLICATION TAX CODE

The Capital Application Tax (CAT) code now includes, in addition to profits attributed to shareholders, the repatriation of profits imputed to permanent establishments of non-residents in Angola. As with profits from shareholders of companies, the tax rate applicable to these profits is 10%. However, a rate of 5% is applied when the shares to which the profits relate to are traded on a regulated market, but only during the first five years after the CAT is implemented.

The Capital Application Tax now includes the repatriation of profits at a tax rate of 10%

On top of the tax on interest already charged, the amortization or reimbursement premiums and other forms of remuneration of bonds, debt notes or similar securities issued by any company as well as public debt securities (treasury bills, treasury bonds and Central Bank securities) are subject to CAT. The applicable tax rate is 10%, unless the securities are traded on a regulated market and have a maturity equal to or greater than three years, in which the tax rate is 5%.

The remuneration of bonds, debt notes and similar securities of companies and public debt securities are taxed at 10%

Moreover, capital gains on the sale of stakes are subject to a CAT, but the transaction costs with the purchase and sale of the securities are to be deducted for purposes of determining the capital gains and losses. The capital gains and losses with the disposal of private and public debt securities, with a maturity equal to or greater than three years, realized on a regulated market, are only included by 50% of their amount.

Capital gains on the sale of stakes are subject to CAT, but the transaction costs (on the purchase and sale) are now excluded

This code came into force on 19 November 2014 (30 days after it was published).

STAMP DUTY CODE

There are several changes to the revised Stamp Duty code, which came into force on the date of its publication (i.e., 21 October 2014). In lease and sub-lease agreements, the taxpayer is now the lessor and the sub-lessor, respectively, who take the responsibility for the assessment and payment of the tax to the Angolan State, as well as the burden on the tax. This responsibility was previously with the lessee and sub-lessee, respectively.

There are several changes to the revised Stamp Duty code

Meanwhile, there are now several exemptions from Stamp Duty, including (1) the interest, commissions and counter services due in any type of mortgage loan, (2) interest earned on treasury bonds, (3) deposit collateral instruments when made in favor of the State, (4) tradable securities when disposed on a regulated market, (5) real estate transfers made within the scope of merger, demerger or incorporation processes considering they are previously authorized by the Tax Authorities, (6) employment contracts and (7) real estate transfers between parents and children made free of compensation.

There are also several items that are now exempt from Stamp Duty

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Additional information is available upon request.

AMSTERDAM - Herengracht 450-454 1017 CA - T: +31 20 240 31 60

CAPE TOWN - 22 Kildare Road Newlands 7700 - T: +27 21 674 0304

LISBON - Av. da Liberdade, 131, 6th Floor - T: +351 21 121 44 00

LONDON - 28 Dover Street - T: +44 20 7038 6200

LUANDA - Rua Marechal Bros Tito n° 35/37 - 9th Floor B- Kinaxixi, Ingombotas - T: +244 222 441 362

MAPUTO - Rua dos Desportistas Edificio JAT 5, 4th Floor - T: +258 82 055 17 04

Disclosures

Eaglestone was founded in December 2011 with the aim to be a committed partner for the development of businesses located primarily in Sub-Saharan Africa and to support the development of renewable energy projects on a global basis.

The company has three business activities - financial advisory services, asset management and brokerage - and currently has offices in Amsterdam, Cape Town London, Lisbon, Luanda and Maputo

Eaglestone is committed to operating and behaving according to the highest standards of corporate governance. Its subsidiary in the United Kingdom is authorized and regulated by the Financial Services Authority. The first of its six Luxembourg based funds has received approval from la Commission de Surveillance du Secteur Financier.

Eaglestone operates with a clear vision and mission to act on behalf of and in the best interests of all its stakeholders, whether they are investors, employees or users of its services.

EAGLESTONE SECURITIES

Business Intelligence
Caroline Fernandes Ferreira
(+351) 211 214 430
caroline.ferreira@eaglestone.eu

Research
Tiago Bossa Dionísio
(+351) 211 214 431
tiago.dionisio@eaglestone.eu

Guido Varatojo dos Santos
(+351) 211 214 468
guido.santos@eaglestone.eu