EAGLESTONE SECURITIES

The Angolan Economy

Budget Proposal for 2017

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Economics
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Moderate economic recovery expected in 2017

Angola has faced a tough macro environment in recent years after oil prices began to free-fall in the second half of 2014. Economic growth slowed to 4.8% in 2014, 3% in 2015 and is expected to come to a near halt this year, as global economic conditions also became less supportive. This weaker performance compares with near double-digit average growth witnessed in the previous decade. The persistently low oil price environment has also led to increased macro imbalances, with a widening of the fiscal and external deficits in the period. The government assumes that growth will recover somewhat in 2017 based on an improved contribution from both the oil and non-oil sectors. As a result, the budget proposal includes a growth estimate of 2.1%, higher than its forecast of 1.1% for 2016. Moreover, consumer prices are expected to remain elevated, but should gradually trend downwards due to tight monetary conditions and the introduction of price control measures by the government.

Budget deficit projected at 5.8% of GDP (vs. 5.9% this year)

The 2017 budget proposal incorporates an average oil price assumption of US$ 46, 12% higher than the US$ 40.9 foreseen in this year's revised budget. Oil production is also estimated to recover to 1.82 million bpd from 1.79 million this year. This will support oil related revenue growth and help offset a lower contribution from income taxes and non-tax revenues. Regarding expenditures, the anticipated rise in spending levels will continue to be driven by higher current expenditures, as these will still account for more than a third of total spending. The government also plans to raise investment levels, but only moderately, and continue to cut fuel related subsidies. Overall, total revenues and expenditures are projected to increase 5.3% and 7.2%, respectively, from this year's revised budget estimates. They are also expected to account for nearly 18.6% and 24.3% of GDP, respectively, placing the 2017 budget deficit forecast at 5.8%. This is slightly lower than the 5.9% estimated for this year. Meanwhile, public debt is projected to reach US$ 62.8 billion from US$ 56.6 billion this year, and stand at 52.7% of GDP (vs. 61.9% in 2016). This fall in the public debt to GDP projection for 2017 came to us as a surprise and we believe it could be due to the assumption used by the government for the US$/AOA exchange rate.

An oil price of US$ 50 in 2017 would lift revenues by 4%

Oil prices have been quite volatile in recent weeks, as investors await the decision from the members of OPEC later this month on a much anticipated agreement to cut oil output. The successful implementation of such a deal would potentially drive oil prices higher over the medium-term and would be positive for oil exports like Angola. However, the failure to reach a deal later this month could bring oil prices back below US$ 40 in 2017. We have therefore carried out a sensitivity analysis to see the potential impact that different scenarios for the oil price would have on the government's budgeted figures for next year. As an example, if the average oil price reaches US$ 50 in 2017 (vs. the current assumption of US$ 46) and assuming all else equal, then total revenues would increase 4% (or US$ 890 million at the current exchange rate) from the government's current forecast. On the other hand, if oil prices average US$ 40 then revenue would be 6% lower (or US$ 1,335 million) than the current projection.

MACROECONOMIC SCENARIO

The fall in oil prices since the second half of 2014 has had a significant impact on economic activity in Angola

Economic activity in Angola has decelerated markedly in recent years, with real GDP growth standing at only 4.8% in 2014 and 3% in 2015. This is significantly slower than the 6.8% rate in 2013 and the double-digit growth average recorded in the previous decade. The deceleration was particularly felt in the oil sector, which saw a contraction in activity in 2014 after a strong decline in production and oil prices started their free fall in the second half of the year. The year 2015 saw an improved performance in the oil sector (despite the continued decline in prices), but a sharp slowdown in other non-oil sectors like manufacturing, construction, retail and agriculture resulted in a modest economic expansion.

The economic environment in the country remains very challenging in 2016, as oil prices remain relatively depressed and tighter monetary conditions to contain inflation hinder growth

Angola continues to face a very challenging economic environment in 2016. Despite a recovery this year, oil prices remain at nearly half of their 2014 peak while global economic conditions have been less supportive. Growth has also been hindered by tighter monetary conditions to contain rising inflation, in large part resulting from the pass through effects of the depreciation of the kwanza. This led the government to recently revise its growth projection for this year to 1.1% from a previous estimate of 3.3% in the 2016 revised budget. However, this assumption may prove to be somewhat optimistic once again, as some institutions like the IMF (0%) and the EIU (0.6%) remain more conservative in terms of their near-term growth projections.

Growth is expected to recover in 2017 based on an improved performance in both the oil and non-oil sectors

The government assumes in the macroeconomic scenario included in the 2017 budget proposal that growth will recover somewhat next year based on an improved performance in both the oil and non-oil sectors. The budget proposal foresees average daily oil production will increase to 1.82 million barrels per day (bpd) from an estimate of 1.79 million this year while oil prices are expected to average US$ 46 per barrel, higher than the US$ 40.9 this year.

The government currently forecasts real GDP growth of 2.1% in 2017

Growth in the oil sector is expected to reach 1.8% (vs. 0.8% in 2016) and activity in the non-oil sector to advance 2.3% from a forecast of 1.2% this year. The government estimates growth in the agriculture and energy sectors to accelerate next year and forecasts a significant recovery in manufacturing after recording negative growth in the last two years. This means that economic growth in the country is projected to recover to 2.1% in 2017.

Inflation has accelerated to more than 40% in October, a multi-year high

Meanwhile, inflation has accelerated rapidly in recent months and reached more than 40% in October, a multi-year high. The government currently has an average forecast of 38.5% for this year, a level not seen in the last 12 years. This sharp rise in consumer prices mostly reflects the impacts from the reduction in fuel subsidies, the continued depreciation of the kwanza, and higher food costs.

Consumer prices are likely to remain elevated in the near-term, but should gradually trend downwards

Consumer prices are expected to remain elevated in the near-term, but should gradually trend downwards due to the central bank's current tight monetary policy stance. The government has also announced several measures to combat inflation, including the introduction of price controls on some goods. However, the fall in inflation levels is unlikely to be rapid since the weakness of the local currency against the dollar should continue to put pressure on the cost of imported goods. We expect the kwanza to continue to depreciate against the dollar next year, although at a slower pace that recently witnessed. Also, the run-up to next year's elections will likely lead to higher government spending, which could further increase inflationary pressures. All in all, the government forecast for next year's inflation stands at 15.8%.

MACRO FORECASTS

	2015	2016 (1)	2016 (2)	2017 (3)
Inflation	14.3%	11.0%	38.5%	15.8%
Annual oil production (mn barrels)	649.5	689.4	654.6	664.7
Daily oil production (million bpd)	1.78	1.89	1.79	1.82
Average oil price (US$ per barrel)	50.0	45.0	40.9	46.0
Gross domestic product:				
Nominal value (AOA billion)	12,321	14,218	16,880	19,746
Oil sector	2,884	3,302	3,659	3,753
% of total	23.4%	23.2%	21.7%	19.0%
Non-oil sector	9,436	10,916	13,220	15,993
% of total	76.6%	76.8%	78.3%	81.0%
Real GDP growth	3.0%	3.4%	1.1%	2.1%
Oil sector	6.5%	4.8%	0.8%	1.8%
Non-oil sector	1.5%	2.7%	1.2%	2.3%
Exchange rate (US$/AOA)	120.1	143.8	-	-

(1) Initial Budget; (2) Revised Budget; (3) Budget Proposal.
Source: Angolan authorities.

GROWTH FORECASTS

	2014	2015	2016 (1)	2017 (2)
Total	**4.8%**	**3.0%**	**1.1%**	**2.1%**
Agriculture	11.9%	0.8%	6.7%	7.3%
Fishing	19.1%	8.1%	1.7%	2.3%
Diamonds and other	1.0%	2.2%	-0.6%	0.5%
Manufacturing	8.1%	-2.1%	-3.9%	4.0%
Construction	8.0%	3.5%	3.2%	2.3%
Energy	17.3%	2.5%	19.9%	40.2%
Commerce	8.0%	2.2%	0.0%	0.0%
Other	6.0%	1.1%	0.0%	0.0%

(1) Revised Budget; (2) Budget Proposal.
Source: Angolan authorities.

BUDGET 2017 PROPOSAL

The Angolan government recently disclosed its preliminary budget proposal for the year 2017 to parliament. The document is now expected to be discussed and voted for approval in the coming weeks. In the proposal, the local authorities expect revenues and expenditures to reach AOA 3,668 billion and AOA 4,808 billion, respectively, next year. This represents an increase of 5.3% in revenues and 7.2% in expenditures when compared with the revised budget figures for 2016. The fiscal deficit is anticipated to stand at AOA 1,140 billion, which is 14% higher than forecasted in this year's revised budget.

The government's 2017 budget proposal foresees a 5.3% increase in revenues and 7.2% in expenditures when compared with the 2016 revised budget

In terms of revenues, the government forecasts 10% higher tax revenues, but nearly 33% lower non-tax proceeds. The higher estimate for both the oil price and production in 2017 means that the local authorities see proceeds from the oil sector improving more than 10% from the 2016 revised budget figure. The government also expects that its continued efforts to improve tax collection outside of the oil sector will translate into higher non-oil receipts, despite the fall of 6% foreseen in income taxes.

Receipts from the oil sector are expected to improve more than 10% as a result of a higher estimate for both the oil price and oil production

Meanwhile, the increase in spending levels should continue to be driven by higher current expenditures. This will most notably be felt in spending on good and services (22%) followed by interest payments (9.6%), wages (3.3%) and transfers (1.3%), with the very modest increase in transfers being the result of much lower spending on subsidies (-19%). Recall that the local authorities have gradually reduced the level of subsidies in recent years, eliminating fuel subsidies almost entirely. It is also worth noting that the government expects to increase capital spending levels, although only modestly when compared with the 2016 revised budget. These are also expected to remain at much lower levels than the ones witnessed in recent years.

The expected increase in spending levels will be mostly driven by higher current expenditures

GOVERNMENT ACCOUNTS								Change	
AOA BILLION	2012	2013	2014	2015 (1)	2016 (2)	2016 (3)	2017 (4)	2017 (4) / 2016 (2)	2017 (4) / 2016 (3)
Revenues	**5,054**	**4,849**	**4,403**	**3,367**	**3,515**	**3,485**	**3,668**	**4.4%**	**5.3%**
Tax Revenues	4,826	4,602	4,098	3,042	3,235	3,092	3,404	5.2%	10.1%
Oil Revenues	4,103	3,630	2,970	1,898	1,690	1,536	1,695	0.3%	10.4%
Non-oil Revenues	723	972	1,128	1,144	1,545	1,557	1,709	10.6%	9.8%
Of which: Income Taxes	325	502	545	664	693	917	862	24.4%	-6.0%
Non-tax Revenues	228	247	305	325	279	393	264	-5.6%	-32.8%
Expenditures	**4,329**	**4,816**	**5,221**	**3,774**	**4,296**	**4,485**	**4,808**	**11.9%**	**7.2%**
Current Expenditures	3,184	3,437	3,666	3,038	3,480	3,524	3,813	9.6%	8.2%
Wages	1,031	1,155	1,319	1,390	1,497	1,563	1,614	7.8%	3.3%
Goods and Services	1,297	1,228	1,249	787	995	848	1,035	4.0%	22.1%
Interests	105	99	147	249	307	442	484	57.5%	9.6%
Transfers	752	955	950	612	680	672	680	0.0%	1.3%
Subsidies	548	710	668	279	370	362	292	-21.1%	-19.3%
Capital Expenditure	1,145	1,379	1,555	736	816	961	995	22.0%	3.5%
Public Investment	1,145	1,376	1,547	719	816	961	995	22.0%	3.5%
Primary Fiscal Balance	**1,869**	**1,411**	**737**	**329**	**34**	**-39**	**-145**	**n.m.**	**272.8%**
Overall Fiscal Balance	**725**	**32**	**-819**	**-407**	**-781**	**-1,000**	**-1,140**	**45.9%**	**14.0%**

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.

Source: Angolan authorities and Eaglestone Securities.

The table below shows the government's accounts as a percentage of GDP in the period 2012-17E. One can clearly see that the percentage of revenues to GDP has fallen in recent years as a result of the significant drop in the contribution from oil revenues. Tax revenues from the oil sector are forecasted to represent only 8.6% of GDP next year, down from the 9.1% foreseen in the 2016 revised budget and significantly lower than the 37.7% recorded, for instance, in 2012.

Revenues as a percentage of GDP have clearly declined in recent years as a result of the lower contribution from oil revenues

The amount of expenditures as a percentage of GDP has also declined and is expected to stand at 24.3% in 2017 (down from 26.6% of GDP in the 2016 revised budget). Most notably, it is worth highlighting the marked decline in capital expenditures, which are only expected to represent 5% of GDP in 2017. This is less than half of the figures recorded in the 2012-14 period. Current expenditures as a percentage of GDP have also fallen in recent years, but are still expected to continue to represent close to 20% of GDP in 2017.

The amount of spending as a percentage of GDP has also fallen, with capital expenditures representing less than half of the level of the 2012-14 period

Overall, the 2017 budget proposal foresees a budget deficit of 5.8% of GDP. This compares with a deficit of 5.9% expected in the 2016 revised budget and 5.5% in the initial budget.

The budget deficit is expected at 5.8% of GDP

GOVERNMENT ACCOUNTS							% of GDP
	2012	2013	2014	2015 (1)	2016 (2)	2016 (3)	2017 (4)
Revenues	**46.5%**	**40.2%**	**35.3%**	**27.3%**	**24.7%**	**20.6%**	**18.6%**
Tax Revenues	44.4%	38.2%	32.9%	24.7%	22.8%	18.3%	17.2%
Oil Revenues	37.7%	30.1%	23.8%	15.4%	11.9%	9.1%	8.6%
Non-oil Revenues	6.6%	8.1%	9.1%	9.3%	10.9%	9.2%	8.7%
Of which: Income Taxes	3.0%	4.2%	4.4%	5.4%	4.9%	5.4%	4.4%
Non-tax Revenues	2.1%	2.0%	2.4%	2.6%	2.0%	2.3%	1.3%
Expenditures	**39.8%**	**39.9%**	**41.9%**	**30.6%**	**30.2%**	**26.6%**	**24.3%**
Current Expenditures	29.3%	28.5%	29.4%	24.7%	24.5%	20.9%	19.3%
Wages	9.5%	9.6%	10.6%	11.3%	10.5%	9.3%	8.2%
Goods and Services	11.9%	10.2%	10.0%	6.4%	7.0%	5.0%	5.2%
Interests	1.0%	0.8%	1.2%	2.0%	2.2%	2.6%	2.5%
Transfers	6.9%	7.9%	7.6%	5.0%	4.8%	4.0%	3.4%
Subsidies	5.0%	5.9%	5.4%	2.3%	2.6%	2.1%	1.5%
Capital Expenditure	10.5%	11.4%	12.5%	6.0%	5.7%	5.7%	5.0%
Public Investment	10.5%	11.4%	12.4%	5.8%	5.7%	5.7%	5.0%
Primary Fiscal Balance	**17.2%**	**11.7%**	**5.9%**	**2.7%**	**0.2%**	**-0.2%**	**-0.7%**
Overall Fiscal Balance	**6.7%**	**0.3%**	**-6.6%**	**-3.3%**	**-5.5%**	**-5.9%**	**-5.8%**

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.

Sources: Angolan authorities and Eaglestone Securities.

Taxes from the oil and non-oil sectors are expected to stand at nearly the same levels in 2017

The figures in the table below show that non-oil sector related taxes have increased markedly in recent years and are once again expected to slightly surpass proceeds from the oil sector in 2017. This continues to largely reflect the impact of lower oil prices on government revenues, but it is also related to the local authorities' increased efforts to broaden tax collection levels from other sources outside of the oil sector. On the other hand, the local authorities continue to allocate the largest share of their spending to pay the salaries of public sector workers, as these account for more than a third of total expenditures once again in 2017. The lower amount expected to be allocated for subsidies is also worth highlighting, as it is significantly less than the one recorded in recent years for the reasons aforementioned. Finally, capital expenditure levels are forecasted to account for slightly more than 20% of the total expenditures, well below the recent peak of nearly 30% in 2014.

GOVERNMENT ACCOUNTS							% of Total
	2012	2013	2014	2015 (1)	2016 (2)	2016 (3)	2017 (4)
Revenues							
Tax Revenues (Oil)	81.2%	74.9%	67.5%	56.4%	48.1%	44.1%	46.2%
Tax Revenues (Non-Oil)	14.3%	20.1%	25.6%	34.0%	44.0%	44.7%	46.6%
Non-tax Revenues	4.5%	5.1%	6.9%	9.6%	7.9%	11.3%	7.2%
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Expenditures							
Wages	23.8%	24.0%	25.3%	36.8%	34.9%	34.8%	33.6%
Goods and Services	30.0%	25.5%	23.9%	20.9%	23.2%	18.9%	21.5%
Interests	2.4%	2.1%	2.8%	6.6%	7.2%	9.8%	10.1%
Transfers	17.4%	19.8%	18.2%	16.2%	15.8%	15.0%	14.1%
Subsidies	12.7%	14.7%	12.8%	7.4%	8.6%	8.1%	6.1%
Capital Expenditure	26.4%	28.6%	29.8%	19.5%	19.0%	21.4%	20.7%
Total Expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.

Sources: Angolan authorities and Eaglestone Securities.

The government plans to spend more on all areas other than the social sector, which is expected to remain rather unchanged from the 2016 revised budget forecast

In terms of expenditures by sector, the government expects to spend AOA 5,050 billion next year if excluding spending on public debt operations, which was not disclosed in the budget proposal. This is 6.4% more than what it forecasted in the 2016 revised budget and nearly 10% more than in the initial budget. Planned spending on the social sector is forecasted to remain rather unchanged from this year's revised budget, with the government expected to spend more on education and healthcare and less on social protection and housing. The government also plans to spend more on defense, security and social order as well as on general public services and the economic sector, as detailed in the table below.

EXPENDITURES BY SECTOR								Change	
AOA BILLION	2012	2013	2014	2015 (1)	2016 (2)	2016 (3)	2017 (4)	2017 (4) / 2016 (2)	2017 (4) / 2016 (3)
Social Sector	1,492	2,226	2,175	1,773	1,983	1,926	1,921	-3.2%	-0.3%
Education	377	586	448	468	491	456	501	1.9%	9.8%
Health	231	369	316	270	341	303	311	-8.8%	2.6%
Social Protection	570	737	697	708	812	759	727	-10.5%	-4.2%
Housing	183	312	572	255	36	374	340	854.4%	-9.1%
Other	130	223	143	72	304	34	42	-86.0%	24.7%
Economic Sector	449	1,218	1,424	584	631	854	892	41.5%	4.4%
Defense, Security and Social Order	681	1,171	1,194	847	927	930	1,013	9.3%	8.9%
General Public Services and Other	1,879	2,020	2,465	835	1,053	1,036	1,225	16.3%	18.3%
Total Expend. (Ex. Public Debt Oper.)	**4,501**	**6,636**	**7,258**	**4,040**	**4,594**	**4,745**	**5,050**	**9.9%**	**6.4%**

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.

Source: Angolan authorities and Eaglestone Securities.

A breakdown of expenditures by sector (excluding spending on public debt operations) shows that the proportion of spending on education and health remains relatively unchanged when compared with the 2016 revised budget at 9.9% and 6.2% of the total, respectively. However, spending on defense is now expected to take a bigger share of the total spending (20.1% of the total) and remain well above the combined spending on education and health (16.1%), as has been the case in recent years.

The combined amount of spending on education and health remains below the amount of spending on defense, security and social order

EXPENDITURES BY SECTOR							% of Total
	2012	2013	2014	2015 (1)	2016 (2)	2016 (3)	2017 (4)
Social Sector	33.1%	33.6%	30.0%	43.9%	43.2%	40.6%	38.0%
Education	8.4%	8.8%	6.2%	11.6%	10.7%	9.6%	9.9%
Health	5.1%	5.6%	4.3%	6.7%	7.4%	6.4%	6.2%
Social Protection	12.7%	11.1%	9.6%	17.5%	17.7%	16.0%	14.4%
Housing	4.1%	4.7%	7.9%	6.3%	0.8%	7.9%	6.7%
Other	2.9%	3.4%	2.0%	1.8%	6.6%	0.7%	0.8%
Economic Sector	10.0%	18.4%	19.6%	14.5%	13.7%	18.0%	17.7%
Defense, Security and Social Order	15.1%	17.7%	16.5%	21.0%	20.2%	19.6%	20.1%
General Public Services and Other	41.7%	30.4%	34.0%	20.7%	22.9%	21.8%	24.3%
Total Expend. (Ex. Public Debt Oper.)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.

Source: Angolan authorities and Eaglestone Securities.

The Angolan government is still planning to finance the majority of its expenditures with fiscal receipts next year. These are estimated to account for 49.6% of the total receipts, slightly less than the 50.1% foreseen in the 2016 revised budget. It is also expecting to borrow less at home, but increase financing in the international market and also have a bigger contribution from asset sales. The local authorities expect to use nearly 30% of the proceeds for debt amortization in 2017, most notably domestic debt. Also a fifth of the total proceeds are estimated to be used to pay the wages of public sector employees and 14% for spending on goods and services, as described below.

The government will continue to finance the majority of its spending with fiscal receipts and, on the other hand, expects to allocate nearly 30% of the proceeds to debt amortization

FINANCING AOA BILLION	2016 (1)	2016 (2)	2017 (3)	% of Total 2016 (1)	% of Total 2016 (2)	% of Total 2017 (3)	% of GDP 2016 (1)	% of GDP 2016 (2)	% of GDP 2017 (3)
Receipts									
Fiscal Revenues	3,514	3,485	3,668	54.7%	50.1%	49.6%	24.7%	20.6%	18.6%
Taxes	3,235	3,092	3,404	50.3%	44.4%	46.1%	22.8%	18.3%	17.2%
Oil Sector	1,690	1,535	1,695	26.3%	22.1%	22.9%	11.9%	9.1%	8.6%
Non-oil Sector	1,545	1,557	1,709	24.0%	22.4%	23.1%	10.9%	9.2%	8.7%
Social Contributions	153	153	173	2.4%	2.2%	2.3%	1.1%	0.9%	0.9%
Other	127	240	91	2.0%	3.4%	1.2%	0.9%	1.4%	0.5%
Asset Sales	2	2	498	0.0%	0.0%	6.7%	0.0%	0.0%	2.5%
Financing	2,913	3,474	3,225	45.3%	49.9%	43.6%	20.5%	20.6%	16.3%
Domestic	1,395	2,089	1,660	21.7%	30.0%	22.5%	9.8%	12.4%	8.4%
International	1,518	1,384	1,564	23.6%	19.9%	21.2%	10.7%	8.2%	7.9%
Total Receipts	**6,429**	**6,960**	**7,390**	**100.0%**	**100.0%**	**100.0%**	**45.2%**	**41.2%**	**37.4%**
Expenditures									
Staff Costs	1,497	1,563	1,614	23.3%	22.5%	21.8%	10.5%	9.3%	8.2%
Wages	1,420	1,484	1,513	22.1%	21.3%	20.5%	10.0%	8.8%	7.7%
Goods and Services	995	848	1,035	15.5%	12.2%	14.0%	7.0%	5.0%	5.2%
Interests	307	442	484	4.8%	6.3%	6.6%	2.2%	2.6%	2.5%
Domestic	152	220	262	2.4%	3.2%	3.5%	1.1%	1.3%	1.3%
External	155	222	222	2.4%	3.2%	3.0%	1.1%	1.3%	1.1%
Transfers	680	672	680	10.6%	9.6%	9.2%	4.8%	4.0%	3.4%
Subsidies	370	362	292	5.8%	5.2%	3.9%	2.6%	2.1%	1.5%
Acquisition of Non-Fin. Assets	816	961	995	12.7%	13.8%	13.5%	5.7%	5.7%	5.0%
Debt Amortization	1,744	2,007	2,197	27.1%	28.8%	29.7%	12.3%	11.9%	11.1%
Domestic	1,284	1,433	1,622	20.0%	20.6%	22.0%	9.0%	8.5%	8.2%
External	459	574	575	7.1%	8.2%	7.8%	3.2%	3.4%	2.9%
Other Financial Investments	390	468	385	6.1%	6.7%	5.2%	2.7%	2.8%	2.0%
Total Expenditures	**6,429**	**6,960**	**7,390**	**100.0%**	**100.0%**	**100.0%**	**45.2%**	**41.2%**	**37.4%**

(1) Initial Budget; (2) Revised Budget; (3) Budget Proposal.
Source: Angolan authorities and Eaglestone Securities.

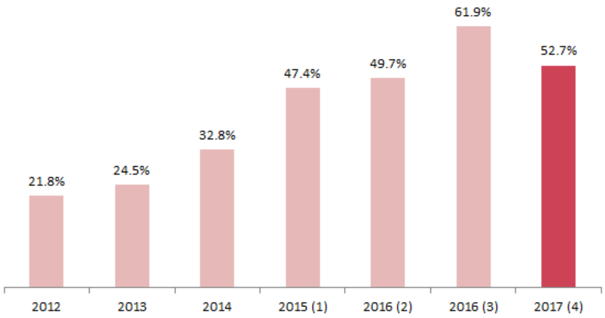
Meanwhile, the government expects public debt levels to increase to US$ 62.8 billion next year from the US$ 56.6 billion forecasted in the 2016 revised budget. External debt is estimated to reach US$ 32.5 billion, or 51.8% of the total, and domestic debt to stand at US$ 30.3 billion. This means that public debt is forecasted to stand at 52.7% of GDP next year, below the 61.9% of GDP estimated for this year in the 2016 revised budget.

Public debt is estimated to fall to 52.7% of GDP next year from a forecast of 61.9% this year

PUBLIC DEBT US$ BILLION	External Debt	Domestic Debt	Total Public Debt
2012	12.4	12.4	**24.8**
2013	15.7	14.9	**30.6**
2014	20.2	21.4	**41.6**
2015 (1)	22.2	26.5	**48.6**
2016 (2)	30.8	18.4	**49.2**
2016 (3)	26.5	30.0	**56.6**
2017 (4)	32.5	30.3	**62.8**

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.
Source: Angolan authorities.

ANGOLAN PUBLIC DEBT (% OF GDP)



(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal. Sources: Angolan authorities and Eaglestone Securities.

The expected fall in the public debt to GDP figure next year came to us as a surprise and, in our view, it might be due to the Angolan government's assumption for the US$/AOA exchange rate. From the calculations presented in the table below, one can see that the local authorities assume an average exchange rate (US$/AOA) of roughly 184.6 this year and 165.7 for 2017. This is based on the forecast for nominal GDP in local currency and in dollars, detailed in the table below. We note that it is materially different than the IMF's estimates disclosed in its latest World Economic Outlook, namely 174.9 this year and 224 in 2017. This represents a depreciation of the kwanza of nearly 22% against the dollar next year.

The expected fall in the government's forecast for public debt to GDP in 2017 came as a surprise to us

Based on the above, we have carried out a sensitivity analysis to see the impact that different devaluation scenarios of the kwanza would have on the debt to GDP metric in 2017. The latest figures show that the average US$/AOA exchange rate is roughly 165.5 year-to-date in 2016. This means that, according to our calculations, the debt to GDP forecast for this year should increase to 55.5% and not the 61.9% estimated in the revised budget. If we assume that the exchange rate remains unchanged in 2017 then we believe that debt to GDP could decline to 52.6%. If we assume a 10% depreciation of the kwanza next year then debt to GDP would increase to 58.5%. It would stand at 61.9%, 65.8% and 70.2% if the kwanza depreciates 15%, 20% and 25%, respectively.

We carried out a sensitivity analysis to see the impact that different scenarios for a depreciation of the kwanza would have on the public debt to GDP forecast in 2017

PUBLIC DEBT - SENSITIVITY	2012	2013	2014	2015	2016	2016	2017
Public Debt (US$ billion) - A	**24.8**	**30.6**	**41.6**	**48.6**	**49.2**	**56.6**	**62.8**
% of GDP - B	*21.8%*	*24.5%*	*32.8%*	*47.4%*	*49.7%*	*61.9%*	*52.7%*
External Debt (US$ billion)	12.4	15.7	20.2	22.2	30.8	26.5	32.5
% of GDP	*10.9%*	*12.6%*	*15.9%*	*21.6%*	*31.1%*	*29.0%*	*27.5%*
Domestic Debt (US$ billion)	12.4	14.9	21.4	26.5	18.4	30.0	30.3
% of GDP	*10.9%*	*12.0%*	*16.9%*	*25.8%*	*18.6%*	*32.9%*	*25.4%*
Government Figures							
Nominal GDP (AOA billion) - D	10,876	12,056	12,462	12,321	14,218	16,880	19,746
Nominal GDP (US$ billion) - A / B = C	113.8	124.9	126.8	102.5	99.0	91.4	119.2
Exchange Rate (US$/AOA) - D / C	95.6	96.5	98.3	120.2	143.6	184.6	165.7
IMF Figures (WEO October 2016)							
Nominal GDP (AOA billion)	10,876	12,056	12,462	12,321	13,786	16,078	22,918
Nominal GDP (US$ billion)	113.8	124.9	126.8	103.0	81.5	91.9	102.3
Exchange Rate (US$/AOA)	95.6	96.5	98.3	119.7	169.2	174.9	224.0
Public Debt (% of GDP) - Sensitivity							
Current Avg FX Rate in 2016-17	95.6	96.5	98.3	120.2	143.6	165.5	165.5
% of GDP	*21.8%*	*24.5%*	*32.8%*	*47.4%*	*49.7%*	*55.5%*	*52.6%*
10% Depreciation in Avg. FX Rate in 2017	95.6	96.5	98.3	120.2	143.6	165.5	183.9
% of GDP	*21.8%*	*24.5%*	*32.8%*	*47.4%*	*49.7%*	*55.5%*	*58.5%*
15% Depreciation in Avg. FX Rate in 2017	95.6	96.5	98.3	120.2	143.6	165.5	194.7
% of GDP	*21.8%*	*24.5%*	*32.8%*	*47.4%*	*49.7%*	*55.5%*	*61.9%*
20% Depreciation in Avg. FX Rate in 2017	95.6	96.5	98.3	120.2	143.6	165.5	206.9
% of GDP	*21.8%*	*24.5%*	*32.8%*	*47.4%*	*49.7%*	*55.5%*	*65.8%*
25% Depreciation in Avg. FX Rate in 2017	95.6	96.5	98.3	120.2	143.6	165.5	220.7
% of GDP	*21.8%*	*24.5%*	*32.8%*	*47.4%*	*49.7%*	*55.5%*	*70.2%*

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.

Source: Angolan authorities and Eaglestone Securities.

SENSITIVITY ANALYSIS TO OIL PRICES

The price of Brent crude oil, the reference for the Angolan market, has averaged about US$ 44 per barrel year-to-date. Brent is also up by more than 20% this year and currently trades at near US$ 46.0. This compares with a forecast of US$ 40.9 included in the 2016 revised budget and an estimate of US$ 45 in the initial budget.

Brent prices have averaged nearly US$ 44 YTD

Due to the uncertainty of the upcoming OPEC meeting to be held in Vienna later this month, oil prices have been quite volatile recently. The cartel agreed at a meeting in Algiers at the end of September that it aimed to lower its output to a range of 32.5 million to 33 million barrels a day with the hope of helping rebalance the global oil market. This would be the first agreement by OPEC to cut production in eight years. The market reacted quite positively to the news, leading Brent prices to surge more than 10% in the first days of October and trade above US$ 50. Crude prices also reached a 12-month high of US$ 53.73 last month. However, investor concerns about which countries will take part in this production cut and whether it will be effectively implemented by all members of the cartel has recently impacted oil prices, as they fell by nearly 14% from the year-high recorded in October.

Oil prices have been quite volatile in recent weeks due to the uncertainty about the outcome of the OPEC meeting to be held later in November

We recall that the Angolan government's 2017 budget proposal incorporates an average oil price assumption of US$ 46. However, the uncertainty about the outlook on oil prices led us to carry out a sensitivity analysis to see the potential impact that different oil price scenarios and implied tax rates for the oil sector would have on the government's forecasted revenues in

The 2017 budget proposal includes an oil price assumption of US$ 46 per barrel

2017. We assume that all other things would remain equal, namely the expenditures envisaged in the 2017 budget proposal.

We have collected data on the performance of the oil sector over the last six years (2010-15) and present it in Table 1. Our sensitivity analysis considers an average oil price range of US$ 30-55, which we consider reasonable bearing in mind the current outlook for oil prices and an implied tax rate ranging from 30% to 40% based on the latest data collected. We also assume in our calculations the average US$/AOA exchange rate of 165.7 this year, but admit that another devaluation of the kwanza could happen before year-end. The results of our calculations are summarized in Tables 2 and 3 and detailed in Table 4 below.

Our sensitivity analysis considers an average oil price range of US$ 30-55 per barrel in 2017

TABLE 1 - OIL/FISCAL ACCOUNTS

	2010	2011	2012	2013	2014	2015 (1)	2016 (2)	2016 (3)	2017 (4)
Oil Sector									
Annual oil production (million) (1)	641.5	605.9	631.9	626.3	610.2	649.5	689.4	654.6	664.68
Average daily oil production (million bpd)	1.76	1.66	1.73	1.72	1.67	1.78	1.89	1.79	1.82
Average oil price (US$ per barrel) (2)	77.9	110.1	111.6	107.7	96.9	50.0	45.0	40.9	46.0
Oil revenues (US$ million) = (1) x (2)	**49,969**	**66,710**	**70,520**	**67,453**	**59,125**	**32,457**	**31,023**	**26,773**	**30,575**
Exchange rate (US$/AOA)	91.1	94.0	95.4	96.6	98.3	120.1	143.8	165.7	165.7
Oil revenues (AOA billion) (3)	**4,552**	**6,271**	**6,728**	**6,516**	**5,812**	**3,898**	**4,461**	**4,436**	**5,066**
Government Accounts									
Oil related tax revenues (AOA billion) (4)	**2,500**	**3,817**	**4,103**	**3,630**	**2,970**	**1,898**	**1,690**	**1,536**	**1,695**
Implied tax rate (oil-related) = (4) / (3)	*54.9%*	*60.9%*	*61.0%*	*55.7%*	*51.1%*	*48.7%*	*37.9%*	*34.6%*	*33.5%*

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.
Sources: Angolan authorities and Eaglestone Securities.

As an example, if the average oil price reaches US$ 50 in 2017 (vs. the current assumption of US$ 46) and assuming the same implied tax rate of 33.5% then total revenues would increase 4% (or US$ 890 million at the current exchange rate) from the government's current forecast. On the other hand, if oil prices average US$ 40 in 2017 then revenues would be 6% lower (or US$ 1,335 million) than the current projection.

If the average oil price reaches US$ 50 in 2017 then total revenues would increase 4% from the government's current forecast

TABLE 2: Change in Revenues vs Budget 2017

		Average Oil Price (US$)					
		30.0	**35.0**	**40.0**	**46.0**	**50.0**	**55.0**
Implied Tax Rate	**30.0%**	-19.2%	-14.7%	-10.2%	-4.8%	-1.2%	3.3%
	32.5%	-16.9%	-12.1%	-7.2%	-1.3%	2.6%	7.5%
	33.5%	-16.1%	-11.1%	-6.0%	0.0%	4.0%	9.0%
	37.5%	-12.4%	-6.8%	-1.2%	5.6%	10.1%	15.7%
	40.0%	-10.2%	-4.2%	1.8%	9.0%	13.8%	19.8%

Source: Eaglestone Securities.

TABLE 3: Change in Revenues vs Budget 2017

		Average Oil Price (US$)					
US$ million		**30.0**	**35.0**	**40.0**	**46.0**	**50.0**	**55.0**
Implied Tax Rate	**30.0%**	-4,250	-3,253	-2,256	-1,059	-262	735
	32.5%	-3,751	-2,671	-1,591	-295	569	1,649
	33.5%	-3,559	-2,447	-1,335	0	890	2,002
	37.5%	-2,754	-1,508	-262	1,234	2,231	3,477
	40.0%	-2,256	-926	403	1,998	3,062	4,391

Source: Eaglestone Securities.

TABLE 4 - GOVERNMENT ACCOUNTS		SENSITIVITY TO OIL PRICES (US$/BARREL)					
AOA BILLION	**2017 Budget**	**30.0**	**35.0**	**40.0**	**46.0**	**50.0**	**55.0**
Scenario 1 (Oil Tax Rate of 30.0%):							
Revenues	**3,668**	**2,964**	**3,129**	**3,294**	**3,492**	**3,624**	**3,790**
% of GDP	*18.6%*	*15.0%*	*15.8%*	*16.7%*	*17.7%*	*18.4%*	*19.2%*
Tax Revenues	3,404	2,700	2,865	3,030	3,228	3,361	3,526
Oil Revenues	1,695	991	1,156	1,322	1,520	1,652	1,817
% of Total Tax Revenues	*49.8%*	*36.7%*	*40.4%*	*43.6%*	*47.1%*	*49.2%*	*51.5%*
Change in Revenues vs. 2017 Budget		***-19.2%***	***-14.7%***	***-10.2%***	***-4.8%***	***-1.2%***	***3.3%***
Scenario 2 (Oil Tax Rate of 32.5%):							
Revenues	**3,668**	**3,046**	**3,225**	**3,404**	**3,619**	**3,762**	**3,941**
% of GDP	*18.6%*	*15.4%*	*16.3%*	*17.2%*	*18.3%*	*19.1%*	*20.0%*
Tax Revenues	3,404	2,782	2,961	3,140	3,355	3,498	3,677
Oil Revenues	1,695	1,074	1,253	1,432	1,647	1,790	1,969
% of Total Tax Revenues	*49.8%*	*38.6%*	*42.3%*	*45.6%*	*49.1%*	*51.2%*	*53.5%*
Change in Revenues vs. 2017 Budget		***-16.9%***	***-12.1%***	***-7.2%***	***-1.3%***	***2.6%***	***7.5%***
Scenario 3 (Oil Tax Rate of 33.5%):							
Revenues	**3,668**	**3,078**	**3,262**	**3,447**	**3,668**	**3,815**	**4,000**
% of GDP	*18.6%*	*15.6%*	*16.5%*	*17.5%*	*18.6%*	*19.3%*	*20.3%*
Tax Revenues	3,404	2,814	2,999	3,183	3,404	3,551	3,736
Oil Revenues	1,695	1,106	1,290	1,474	1,695	1,843	2,027
% of Total Tax Revenues	*49.8%*	*39.3%*	*43.0%*	*46.3%*	*49.8%*	*51.9%*	*54.3%*
Change in Revenues vs. 2017 Budget		***-16.1%***	***-11.1%***	***-6.0%***	***0.0%***	***4.0%***	***9.0%***
Scenario 4 (Oil Tax Rate of 37.5%):							
Revenues	**3,668**	**3,211**	**3,418**	**3,624**	**3,872**	**4,037**	**4,244**
% of GDP	*18.6%*	*16.3%*	*17.3%*	*18.4%*	*19.6%*	*20.4%*	*21.5%*
Tax Revenues	3,404	2,948	3,154	3,361	3,608	3,774	3,980
Oil Revenues	1,695	1,239	1,446	1,652	1,900	2,065	2,272
% of Total Tax Revenues	*49.8%*	*42.0%*	*45.8%*	*49.2%*	*52.7%*	*54.7%*	*57.1%*
Change in Revenues vs. 2017 Budget		***-12.4%***	***-6.8%***	***-1.2%***	***5.6%***	***10.1%***	***15.7%***
Scenario 5 (Oil Tax Rate of 40.0%):							
Revenues	**3,668**	**3,294**	**3,514**	**3,735**	**3,999**	**4,175**	**4,395**
% of GDP	*18.6%*	*16.7%*	*17.8%*	*18.9%*	*20.3%*	*21.1%*	*22.3%*
Tax Revenues	3,404	3,030	3,250	3,471	3,735	3,911	4,132
Oil Revenues	1,695	1,322	1,542	1,762	2,027	2,203	2,423
% of Total Tax Revenues	*49.8%*	*43.6%*	*47.4%*	*50.8%*	*54.3%*	*56.3%*	*58.6%*
Change in Revenues vs. 2017 Budget		***-10.2%***	***-4.2%***	***1.8%***	***9.0%***	***13.8%***	***19.8%***
Non-oil Revenues	1,709	1,709	1,709	1,709	1,709	1,709	1,709
Non-tax Revenues	264	264	264	264	264	264	264
Expenditures	**4,808**	**4,808**	**4,808**	**4,808**	**4,808**	**4,808**	**4,808**
% of GDP	*24.3%*	*24.3%*	*24.3%*	*24.3%*	*24.3%*	*24.3%*	*24.3%*
Current Expenditures	3,813	3,813	3,813	3,813	3,813	3,813	3,813
Scenario 1 (Oil Tax Rate of 30.0%):							
Primary Fiscal Balance	**-145**	**-849**	**-684**	**-519**	**-321**	**-188**	**-23**
% of GDP	*-0.7%*	*-4.3%*	*-3.5%*	*-2.6%*	*-1.6%*	*-1.0%*	*-0.1%*
Overall Fiscal Balance	**-1,140**	**-1,844**	**-1,679**	**-1,514**	**-1,315**	**-1,183**	**-1,018**
% of GDP	*-5.8%*	*-9.3%*	*-8.5%*	*-7.7%*	*-6.7%*	*-6.0%*	*-5.2%*
Scenario 2 (Oil Tax Rate of 32.5%):							
Primary Fiscal Balance	**-145**	**-767**	**-588**	**-409**	**-194**	**-51**	**128**
% of GDP	*-0.7%*	*-3.9%*	*-3.0%*	*-2.1%*	*-1.0%*	*-0.3%*	*0.6%*
Overall Fiscal Balance	**-1,140**	**-1,761**	**-1,583**	**-1,404**	**-1,189**	**-1,046**	**-867**
% of GDP	*-5.8%*	*-8.9%*	*-8.0%*	*-7.1%*	*-6.0%*	*-5.3%*	*-4.4%*
Scenario 3 (Oil Tax Rate of 33.5%):							
Primary Fiscal Balance	**-145**	**-735**	**-550**	**-366**	**-145**	**2**	**187**
% of GDP	*-0.7%*	*-3.7%*	*-2.8%*	*-1.9%*	*-0.7%*	*0.0%*	*0.9%*
Overall Fiscal Balance	**-1,140**	**-1,730**	**-1,545**	**-1,361**	**-1,140**	**-992**	**-808**
% of GDP	*-5.8%*	*-8.8%*	*-7.8%*	*-6.9%*	*-5.8%*	*-5.0%*	*-4.1%*
Scenario 4 (Oil Tax Rate of 37.5%):							
Primary Fiscal Balance	**-145**	**-601**	**-395**	**-188**	**59**	**225**	**431**
% of GDP	*-0.7%*	*-3.0%*	*-2.0%*	*-1.0%*	*0.3%*	*1.1%*	*2.2%*
Overall Fiscal Balance	**-1,140**	**-1,596**	**-1,390**	**-1,183**	**-935**	**-770**	**-564**
% of GDP	*-5.8%*	*-8.1%*	*-7.0%*	*-6.0%*	*-4.7%*	*-3.9%*	*-2.9%*
Scenario 5 (Oil Tax Rate of 40.0%):							
Primary Fiscal Balance	**-145**	**-519**	**-299**	**-78**	**186**	**362**	**583**
% of GDP	*-0.7%*	*-2.6%*	*-1.5%*	*-0.4%*	*0.9%*	*1.8%*	*3.0%*
Overall Fiscal Balance	**-1,140**	**-1,514**	**-1,293**	**-1,073**	**-809**	**-633**	**-412**
% of GDP	*-5.8%*	*-7.7%*	*-6.6%*	*-5.4%*	*-4.1%*	*-3.2%*	*-2.1%*

Sources: Angolan authorities and Eaglestone Securities.

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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 Conduct Authority.

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.

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