



## The Angolan Economy

### An uphill struggle in 2015

**Research**

March 2015

#### **Lower economic projections this year**

In its newly revised budget for 2015, the Angolan government expects the average oil price for this year to stand at US\$ 40 per barrel. This is half of the price foreseen in the initial budget document released last October. The local authorities have also lowered their economic growth forecasts to 6.6% this year from a previous estimate of 9.7%. The non-oil sector suffered the biggest revision to a 5.3% growth rate (from 9.2%). However, the scenario projected by the government remains more upbeat than the one expected by several international institutions, which begin to suggest that growth may decelerate to a rate below 4% this year.

**Economics**

**Tiago Bossa Dionísio**

(+351) 211 214 431

tiago.dionisio@eaglestone.eu

#### **Fiscal deficit expected to reach 7% of GDP (vs. 3.1% in 2014)**

The Angolan government forecasts a fiscal deficit representing 7% of GDP this year. This estimate is lower than the 7.6% initially planned, but it remains well above the (preliminary) deficit recorded in 2014 (3.1%). As expected, this new budget assumes a significant reduction in revenues that the local authorities hope to accommodate with lower expenditures in all sectors. Specifically, revenue estimates were cut by 36% from the previous budget projections (oil related revenues were revised downwards by 59%) while spending was lowered by 33% (public investment was cut by 44%). More funds continue to be allocated to the social sector (32.5% of total expenditures), but spending on defense and security (15.5% of the total) still outweigh the amount invested in education and health (13.5% of the total). Overall, the new budget sees public debt reaching 45.8% of GDP, which compares with the initial estimate of 35.5% and 31.2% in 2014.

#### **Tax reforms and lower fuel subsidies to aid fiscal accounts**

The local authorities hope that the implementation of several tax reforms will improve tax collection outside of the oil sector. Non-oil related receipts are expected to jump 27% this year and to surpass the contribution of the revenues coming from the oil sector. Several measures like the recently announced tax on foreign exchange transfers could also help improve the government's coffers. The exact details of this measure, including the tax rates and the length of time that it will be effective, are yet to be publicly disclosed though. The government is also expected to continue its fuel subsidy reform. We note that these represented nearly 3.5% of GDP last year. It hopes to reduce the amount of subsidies to 1% of GDP over the medium-term.

#### **A sensitivity analysis to different oil price scenarios**

Our sensitivity analysis suggests that total revenues would increase by 8.4% from the current revised budget estimates if the average oil price reaches US\$ 45 this year (vs. the US\$ 40 expected). This means that the fiscal deficit would improve to 5% of GDP in 2015. According to our estimates, a balanced budget would require oil prices to reach an average level of slightly below US\$ 70 this year. This is assuming that all else would remain equal, namely that the Angolan government would keep its current spending plans unaltered.

**REVISED BUDGET 2015****NEW ECONOMIC PROJECTIONS**

In our research note about the initial budget presented by the Angolan government for this year (dated November 2014) we asked the question whether lower oil prices would hit 2015 fiscal accounts. It was actually the title of our analysis of this year's budget. Well, it took less than three months before the local authorities presented a revised budget to the country's National Assembly. The significant fall in oil prices since the middle of 2014 will undoubtedly impact the country's fiscal accounts, making the government's initial projections completely outdated.

Besides the revised outlook on the fiscal front, the newly revised budget also includes several changes to the government's initial economic growth projections. First, it sets a new forecast of US\$ 40 for the average oil price this year, which is significantly below the previous estimate of US\$ 81 and the average of US\$ 104 in 2014. The local authorities still expect Angola to produce 669.8 million barrels in 2015 (or 1.83 million barrels of oil per day), an 11% increase from the previous year. Second, the government cut its real GDP growth projection for this year to 6.6% from a previous forecast of 9.7%. The oil sector is now expected to advance 9.8% in 2015 (vs. an initial 10.7% estimate) while the non-oil sector suffered the biggest revision to a 5.3% growth (from 9.2%). And third, consumer price inflation is expected to reach 9%, higher than the 7% previously anticipated, but within the Central Bank's medium-term target.

In our view, the government's revised growth projection for this year remains rather optimistic considering the many challenges that the Angolan economy is likely to face in the foreseeable future. We also note that this forecast is well above the IMF's 5.9% estimate from October 2014 (which is likely to be revised downwards in the short-term), the World Bank's 5.3% growth estimate (from January 2015) and the figures recently suggested by several rating agencies pointing to a growth rate below 4% in 2015.

*Angola presented a revised budget for 2015 following the sharp drop in oil prices and its impact on fiscal accounts*

*The revised budget includes (1) an average oil price of US\$ 40/barrel, (2) real GDP growth of 6.6% and (3) inflation of 9%*

*We believe that the revised economic growth projects remain optimistic*

<b>ECONOMIC PROJECTIONS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015 (1)</b>	<b>2015 (2)</b>
Inflation	9.0%	7.7%	7.5%	7.0%	9.0%
Annual oil production (million)	631.8	626.3	604.4	669.1	669.8
Average daily oil production (million bpd)	1.73	1.72	1.66	1.83	1.83
Average oil price (US\$ per barrel)	111.6	107.7	104.0	81.0	40.0
Gross domestic product:					
Nominal value (AOA billion)	10,876.0	12,056.3	11,495.2	13,480.9	11,534.9
Real GDP growth	5.2%	6.8%	4.7%	9.7%	6.6%
Oil sector	4.3%	-0.9%	-2.6%	10.7%	9.8%
Non-oil sector	5.6%	10.9%	8.2%	9.2%	5.3%
Non-oil primary balance (% of non-oil GDP)	-55.5%	-48.3%	-47.3%	-35.2%	-16.6%
Net international reserves (US\$ million)	30,632.3	30,945.3	26,907.1	6M imports	19,277.2
Growth in M2	33.5%	15.2%	20.2%	16.0%	14.8%
Net direct investment (US\$ million)	-9,638.7	-13,164.2	-8,901.9	9,079.1	9,079.1

Note: (1) Initial Budget 2015; (2) Revised Budget 2015.  
Source: Angolan authorities.

**PRELIMINARY FISCAL ACCOUNTS 2014**

The government included in this revised version of the budget for 2015 the preliminary figures for its fiscal accounts of 2014. Unsurprisingly, fiscal revenues were impacted by a combination of the fall in oil production during the year (1.66 million barrels per day from 1.72 million in 2013) and lower oil prices, which were particularly evident in the last quarter.

Starting with revenues, preliminary data for 2014 show that total receipts amounted to AOA 4,323 billion, representing an 11% fall from the previous year and 9% less than the budgeted figure. They were also slightly below the estimate provided by the Angolan government at the time of the release of the initial budget for this year. Overall, revenues accounted for 37.6% of GDP, which is lower than the 40.2% in 2013.

Tax revenues stood at AOA 4,090 billion, with oil related revenues accounting for 72.4% of the total tax receipts. This compares with the 73% that was budgeted and the 78.9% in 2013 and 85% in 2012. Non-oil tax revenues actually increased from the previous year, but stood 8% short of the forecasted figure for the year.

On the expenditure side, the Angolan government posted an annual fall of 3% in total spending

*Preliminary fiscal figures for 2014 showed a marked drop in revenues that resulted from lower oil production and prices*

*Revenues dropped from 2013 and stood below the budgeted figure for the year*

*Oil related revenues were 72.4% of the total tax receipts*

*Expenditures stood 7%*

to AOA 4,682 billion, as it accounted for 40.7% of GDP (slightly higher than in 2013). This is 13% lower than the initially budgeted figure for 2014, but 7% ahead of the estimate provided by the government last October. This (surprising) deviation in such a short period of time is explained by the significant increase in capital expenditure in the latter stages of 2014. Nevertheless, this type of spending was well below what the Angolan authorities had envisaged for the whole of the year.

*higher than the estimate disclosed last October, as capital expenditures rose strongly toward the end of 2014*

Meanwhile, current expenditures posted a yearly drop of 5% on the back of lower spending on goods and services whereas, on the other hand, spending on wages was actually up in the period (despite being lower than forecasted). Current expenditures accounted for over 69% of total government spending (vs. 71.4% in 2013 and 73.6% in 2012), but still clearly the lion's share of the government's spending.

*Current expenditures clearly represent the lion's share of the government's spending*

We note that government subsidies, namely fuel related, continue to make up a large share of total spending. The latest figures provided on this topic suggest that they represented as much as 12% of total expenditures in 2012 and that they have come down to about 10% last year. Fuel subsidies have consistently represented about 4.5% of GDP in recent years, a figure that the government hopes to bring down to about 1% of GDP in the medium-term.

*Fuel subsidies have consistently weighed about 4.5% of GDP in the last few years*

GOVERNMENT SUBSIDIES					
AOA BILLION	2012	2013	2014	2014	2014
	Executed	Executed	Budget (2)	Estimate	Prelim. (4)
<b>Amount in AOA billion:</b>					
<b>Expenditures</b>	<b>4,329</b>	<b>4,816</b>	<b>5,375</b>	<b>4,381</b>	<b>4,682</b>
Current Expenditures	3,184	3,437	3,674	3,324	3,250
Subsidies	548	710	685	568	478
Fuel Subsidies	518	553	537	427	n.a.
% of Total Expenditures	12.0%	11.5%	10.0%	9.8%	n.a.
<b>% of GDP:</b>					
<b>Expenditures</b>	<b>39.8%</b>	<b>39.9%</b>	<b>41.9%</b>	<b>34.5%</b>	<b>40.7%</b>
Current Expenditures	29.3%	28.5%	28.7%	26.1%	28.3%
Subsidies	5.0%	5.9%	5.3%	4.5%	4.2%
Fuel Subsidies	4.8%	4.6%	4.2%	3.4%	n.a.

Source: Angolan authorities and Eaglestone Securities.

All in all, preliminary numbers show that the fiscal deficit stood at AOA 360 billion in 2014, or at 3.1% of GDP. This figure compares with a deficit of AOA 630 billion (or 4.9% of GDP) that was expected in the initial budget for 2014. Having said that, it is worth noting that this preliminary budget deficit figure stands well above the estimate provided by the government at the time that it disclosed its budget proposal for 2015 in mid-October of last year. Indeed, at that time, the government was expecting to post a somewhat balanced fiscal account for 2014. However, as depicted in the table below, capital expenditures saw a significant increase at the end of the year that mostly explains the higher budget deficit aforementioned.

*The preliminary fiscal deficit stood at 3.1% of GDP, which is better than the initial budgeted figure, but worse than what was estimated in October*

GOVERNMENT ACCOUNTS									
AOA BILLION	2012	2013	2014	2014	2014				
	Executed	Executed	Budget (2)	Estimate	Prelim. (4)	(4) / (1)	(3) / (2)	(4) / (2)	(4) / (3)
<b>Revenues and Grants</b>	<b>5,054</b>	<b>4,849</b>	<b>4,745</b>	<b>4,357</b>	<b>4,323</b>	<b>-10.8%</b>	<b>-8.2%</b>	<b>-8.9%</b>	<b>-0.8%</b>
% of GDP	46.5%	40.2%	37.0%	34.3%	37.6%				
Tax Revenues	4,826	4,602	4,540	4,163	4,090	-11.1%	-8.3%	-9.9%	-1.8%
Oil Revenues	4,103	3,630	3,313	3,048	2,962	-18.4%	-8.0%	-10.6%	-2.8%
% of Total Tax Revenues	85.0%	78.9%	73.0%	73.2%	72.4%	-8.2%	0.3%	-0.8%	-1.1%
Non-oil Revenues	723	972	1,227	1,115	1,128	16.0%	-9.1%	-8.0%	1.2%
Non-tax Revenues	228	247	205	191	233	-5.6%	-6.8%	13.6%	22.0%
<b>Expenditures</b>	<b>4,329</b>	<b>4,816</b>	<b>5,375</b>	<b>4,381</b>	<b>4,682</b>	<b>-2.8%</b>	<b>-18.5%</b>	<b>-12.9%</b>	<b>6.9%</b>
% of GDP	39.8%	39.9%	41.9%	34.5%	40.7%				
Current Expenditures	3,184	3,437	3,674	3,324	3,250	-5.4%	-9.5%	-11.5%	-2.2%
Wages	1,031	1,155	1,369	1,284	1,295	12.2%	-6.2%	-5.4%	0.8%
Goods and Services	1,297	1,228	1,431	1,079	1,094	-11.0%	-24.6%	-23.6%	1.4%
Interests	105	99	128	148	142	43.4%	15.7%	11.4%	-3.7%
Transfers	752	955	746	813	719	-24.7%	8.9%	-3.6%	-11.5%
Capital Expenditure	1,145	1,379	1,701	1,057	1,432	3.9%	-37.9%	-15.8%	35.5%
<b>Primary Fiscal Balance</b>	<b>1,869</b>	<b>1,411</b>	<b>1,071</b>	<b>1,034</b>	<b>1,073</b>	<b>-24.0%</b>	<b>-3.5%</b>	<b>0.2%</b>	<b>3.8%</b>
% of GDP	17.2%	11.7%	8.4%	8.1%	9.3%				
<b>Overall Fiscal Balance</b>	<b>725</b>	<b>32</b>	<b>-630</b>	<b>-24</b>	<b>-360</b>	<b>n.m.</b>	<b>-96.2%</b>	<b>-42.9%</b>	<b>1417.3%</b>
% of GDP	6.7%	0.3%	-4.9%	-0.2%	-3.1%				

Source: Angolan authorities and Eaglestone Securities.

## REVISED BUDGET 2015 FIGURES

The Angolan government forecasts in its newly revised budget 2015 a fiscal deficit of AOA 807 billion, representing 7% of GDP. This estimate is lower than the AOA 1,031 billion (7.6% of GDP) that was initially expected in October 2014, but it remains significantly above the (preliminary) deficit recorded in 2014. As expected, the revised budget assumes a significant reduction in revenues that the local authorities hope to accommodate with lower expenditures pretty much across the board.

Specifically, the government now expects total receipts to amount to AOA 2,693 billion, a drop of 36% relatively to its initial budgeted figure and 38% lower than in 2014. Revenues are also anticipated to represent a very modest 23.3% of GDP (37.6% in 2014). Oil-related revenues are expected to tumble to nearly a third of the preliminary figure for last year, as the revision in the average oil price from US\$ 81 a barrel to US\$ 40 in 2015 hits receipts by almost 60%. Said differently, oil-related revenues are now expected to account for only 42% of the total tax revenues (vs. 72.4% in 2014).

The significant fall in government receipts is partly lessened by a more favorable contribution from non-oil related revenues this year, which the local authorities attribute to the tax reform implemented in Angola aimed at increasing tax collection outside of the oil sector. These receipts are expected to jump 27% from 2014 and to surpass the contribution of the revenues coming from the oil sector, as detailed below.

*The government foresees in its newly revised budget that the fiscal deficit will reach 7% of GDP*

*Revenues are expected to fall significantly this year, namely oil-related receipts as these should fall to nearly a third of the 2014 preliminary figure*

*The fiscal reform is likely to have an impact on the contribution from non-oil related revenues this year*

GOVERNMENT REVENUES AOA BILLION					Change		% of Total Revenues			
	2013	2014	2015 (1)	2015 (2)	(2) / (1)	(2) / 2014	2013	2014	2015 (1)	2015 (2)
Tax Revenues	4,602	4,090	3,969	2,476	-37.6%	-39.5%	94.9%	94.6%	94.8%	92.0%
Oil Revenues	3,630	2,962	2,551	1,039	-59.3%	-64.9%	74.9%	68.5%	61.0%	38.6%
Of which: Concessionary Rights	2,446	1,991	1,890	800	-57.7%	-59.8%	50.4%	46.1%	45.2%	29.7%
Non-oil Revenues	972	1,128	1,417	1,437	1.4%	27.4%	20.1%	26.1%	33.9%	53.4%
Non-tax Revenues	247	232	216	217	0.1%	-6.7%	5.1%	5.4%	5.2%	8.0%
<b>Total Revenues</b>	<b>4,849</b>	<b>4,322</b>	<b>4,185</b>	<b>2,693</b>	<b>-35.7%</b>	<b>-37.7%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: (1) Initial Budget 2015; (2) Revised Budget 2015.

Source: Angolan authorities and Eaglestone Securities.

In terms of expenditures, the government has revised downwards all of its spending plans for this year relatively to what it had initially foreseen. Total expenditures are now expected to represent 30.3% of GDP, which compares with 40.7% in 2014 (and 38.7% in the initial 2015 budget). The most significant cut is in capital expenditures, including public investment, which is reduced by more than half relatively to both the initial 2015 budget and the government's preliminary figure for 2014. As a reference, this type of spending is expected to represent 5.4% of GDP this year whereas in 2013 and 2014 it accounted for 11.4% and 12.4%, respectively. The initial 2015 budget foresaw public investment representing 8.2% of GDP.

Moreover, current expenditures were reduced by a quarter relatively to the initial budget and are expected to fall from 2014. This is mostly due to lower spending on goods and services, as wages are actually anticipated to increase double-digits from the previous year. Government subsidies were also cut significantly and are now expected to represent 4.4% of total spending (vs. 10.2% in 2014). In GDP terms, they are estimated to account for 1.3% of GDP, which compares with 2.8% in the initial 2015 budget (and 4.2% in 2014). Overall, the share of current expenditures to total government spending jumps to nearly 82% (vs. 69% in 2014), as depicted in the table below.

*Expenditures were reduced pretty much across the board to accommodate the lower expected revenues*

*Although lower than initially expected, current expenditures still account for the most part of total government spending*

GOVERNMENT EXPENDITURES AOA BILLION					Change		% of Total Expenditures			
	2013	2014	2015 (1)	2015 (2)	(2) / (1)	(2) / 2014	2013	2014	2015 (1)	2015 (2)
Current Expenditures	3,437	3,250	3,848	2,862	-25.6%	-11.9%	71.4%	69.4%	73.8%	81.8%
Wages	1,155	1,295	1,566	1,488	-5.0%	14.9%	24.0%	27.7%	30.0%	42.5%
Goods and Services	1,228	1,094	1,374	692	-49.6%	-36.7%	25.5%	23.4%	26.4%	19.8%
Interests	99	142	231	231	0.0%	62.5%	2.1%	3.0%	4.4%	6.6%
Transfers	955	719	678	451	-33.4%	-37.3%	19.8%	15.4%	13.0%	12.9%
Subsidies	710	478	374	154	-58.8%	-67.7%	14.7%	10.2%	7.2%	4.4%
Capital Expenditure	1,379	1,432	1,367	637	-53.4%	-55.5%	28.6%	30.6%	26.2%	18.2%
<b>Total Expenditures</b>	<b>4,816</b>	<b>4,682</b>	<b>5,216</b>	<b>3,499</b>	<b>-32.9%</b>	<b>-25.3%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: (1) Initial Budget 2015; (2) Revised Budget 2015.

Source: Angolan authorities and Eaglestone Securities.

When looking at expenditures by activity, the revised budget continues to allocate more funds to the social side of the economy (32.5% of total spending) even after the significant spending cuts expected in all of the sectors. Areas such as education and social protection actually see moderate increases from 2014, contrasting with spending on health and housing, for instance. We took particular notice of the fact that in the initial budget the amount of spending on both education and health was expected to be greater than spending on defense and security. This was something that had not occurred in Angola in the post-war period. However, the revisions made to the budget imply that spending on defense and security (15.5% of the total) is expected to continue to surpass the amount invested on education and health (13.5% of the total).

*Despite the spending cuts in all the sectors of the economy, the government still expects to spend more money on the social sector*

EXPENDITURES BY ACTIVITY AOA BILLION	Budget				Change		% of Total Expenditures			
	2013	2014	2015 (1)	2015 (2)	(2) / (1)	(2) / 2014	2013	2014	2015 (1)	2015 (2)
Social Sector	2,226	2,175	2,482	1,773	-28.6%	-18.5%	33.6%	30.0%	34.2%	32.5%
Education	586	448	658	468	-28.8%	4.6%	8.8%	6.2%	9.1%	8.6%
Health	369	316	405	270	-33.5%	-14.5%	5.6%	4.3%	5.6%	4.9%
Social Protection	737	697	928	708	-23.8%	1.5%	11.1%	9.6%	12.8%	13.0%
Housing	312	572	354	255	-28.0%	-55.4%	4.7%	7.9%	4.9%	4.7%
Environmental Protection	141	58	55	27	-52.0%	-54.4%	2.1%	0.8%	0.8%	0.5%
Other	82	85	82	46	-44.2%	-46.3%	1.2%	1.2%	1.1%	0.8%
Economic Sector	1,218	1,424	1,051	584	-44.4%	-59.0%	18.4%	19.6%	14.5%	10.7%
Defense	588	673	531	433	-18.5%	-35.6%	8.9%	9.3%	7.3%	7.9%
Security and Social Order	583	521	492	414	-15.8%	-20.5%	8.8%	7.2%	6.8%	7.6%
General Public Services and Other	2,020	2,465	1,302	835	-35.9%	-66.1%	30.4%	34.0%	18.0%	15.3%
Public Debt Operations	687	915	1,394	1,414	1.4%	54.6%	10.3%	12.6%	19.2%	25.9%
<b>Total Expenditures</b>	<b>6,636</b>	<b>7,258</b>	<b>7,252</b>	<b>5,454</b>	<b>-24.8%</b>	<b>-24.9%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: (1) Initial Budget 2015; (2) Revised Budget 2015.

Source: Angolan authorities and Eaglestone Securities.

GOVERNMENT ACCOUNTS AOA BILLION	2013	2014	2015	2015	(2) / (1)	2015 (1) / 2014	2015 (2) / 2014
	Executed	Prelim.	Budget (1)	Revised (2)			
<b>Revenues and Grants</b>	<b>4,849</b>	<b>4,323</b>	<b>4,185</b>	<b>2,693</b>	<b>-35.7%</b>	<b>-3.9%</b>	<b>-37.7%</b>
% of GDP	40.2%	37.6%	31.0%	23.3%			
Tax Revenues	4,602	4,090	3,969	2,476	-37.6%	-4.7%	-39.5%
Oil Revenues	3,630	2,962	2,551	1,039	-59.3%	-16.3%	-64.9%
% of Total Tax Revenues	78.9%	72.4%	64.3%	42.0%	-34.7%	-12.2%	-42.0%
Non-oil Revenues	972	1,128	1,417	1,437	1.4%	27.1%	27.4%
Non-tax Revenues	247	233	216	217	0.1%	13.4%	-6.9%
<b>Expenditures</b>	<b>4,816</b>	<b>4,682</b>	<b>5,216</b>	<b>3,499</b>	<b>-32.9%</b>	<b>19.1%</b>	<b>-25.3%</b>
% of GDP	39.9%	40.7%	38.7%	30.3%	-21.6%	12.3%	-25.5%
Current Expenditures	3,437	3,250	3,848	2,862	-25.6%	15.8%	-11.9%
Wages	1,155	1,295	1,566	1,488	-5.0%	21.9%	14.9%
Goods and Services	1,228	1,094	1,374	692	-49.6%	27.4%	-36.7%
Interests	99	142	231	231	0.0%	56.5%	62.6%
Transfers	955	719	678	451	-33.4%	-16.6%	-37.3%
Capital Expenditure	1,379	1,432	1,367	637	-53.4%	29.3%	-55.5%
Public Investment	1,376	1,425	1,103	622	-43.6%	22.2%	-56.3%
<b>Primary Fiscal Balance</b>	<b>1,411</b>	<b>1,073</b>	<b>337</b>	<b>-170</b>	<b>-150.4%</b>	<b>-67.4%</b>	<b>-115.8%</b>
% of GDP	11.7%	9.3%	2.5%	-1.5%			
<b>Overall Fiscal Balance</b>	<b>32</b>	<b>-360</b>	<b>-1,031</b>	<b>-807</b>	<b>-21.8%</b>	<b>4249.8%</b>	<b>124.3%</b>
% of GDP	0.3%	-3.1%	-7.6%	-7.0%			
<b>Non-oil Primary Balance</b>	<b>-3,499</b>	<b>-3,179</b>	<b>-3,351</b>	<b>-1,615</b>	<b>-51.8%</b>	<b>14.6%</b>	<b>-49.2%</b>
% of non-oil GDP	-48.3%	-44.2%	-35.2%	-17.4%			
<b>Non-oil Total Balance</b>	<b>-3,598</b>	<b>-3,322</b>	<b>-3,582</b>	<b>-1,846</b>	<b>-48.5%</b>	<b>16.6%</b>	<b>-44.4%</b>
% of non-oil GDP	-49.7%	-46.2%	-37.7%	-19.8%			

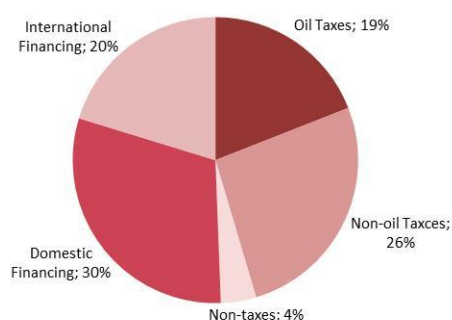
Note: (1) Initial Budget 2015; (2) Revised Budget 2015.

Source: Angolan authorities and Eaglestone Securities.

The lower revenue contribution expected this year means that the Angolan government will have to rely more on debt markets (both domestic and international) to finance its spending plans. The revised budget foresees a significant increase in public debt levels this year, which in dollar terms should reach US\$ 47 billion. It compares with a preliminary figure of US\$ 36.5 billion in 2014 and US\$ 48.3 billion expected in the initial budget 2015. In other words, public debt in Angola is now expected to reach 45.8% of GDP from 31.2% in 2014.

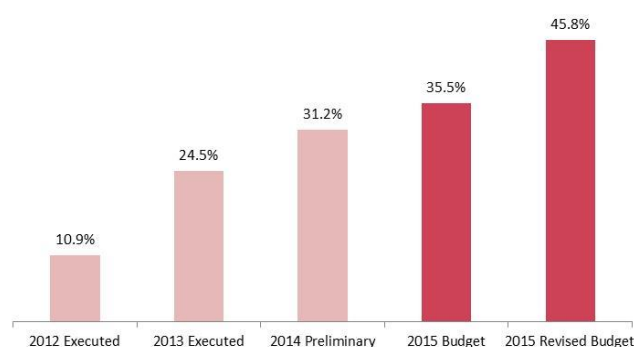
*Public debt is expected to increase to 45.85% of GDP in 2015*

GOVERNMENT FINANCING – 2015 (AOA 5,454 BN)



Source: Angolan authorities.

PUBLIC DEBT (% OF GDP)



Source: Angolan authorities.

SENSITIVITY ANALYSIS

We have carried out a sensitivity analysis to see the potential impact that different oil prices and implied tax rates relating to the oil sector would have on the government’s fiscal revenues included in the revised budget for 2015. We assume that all other things would remain equal, namely the expenditures that the Angolan authorities are planning for 2015. In order to do so, we have collected data on the performance of the oil sector over the last five years (2010-14) and detail it in the table below. Our sensitivity analysis considers an average oil price range of US\$ 45-70 for this year, which we consider reasonable bearing in mind the current outlook for the sector, and an implied tax rate ranging from 40% to 60% based on the data collected for the period 2010-14. We also consider an exchange rate US\$/AOA of 105.0 this year.

*We carried out a sensitivity analysis to oil prices and implied tax rates for the oil sector*

On this, we note that the Angolan legislation states that oil companies are subject to a specific tax regime. A petroleum income tax is levied on the income obtained from the exercise of petroleum transactions and any other income derived from other activities of a non-commercial or industrial nature. The tax rates are (1) 65.75% in relation to a joint venture agreement and (2) 50% for a cost share agreement.

*Income from oil operations is taxed at 50% or 65.75%*

A petroleum transaction tax of 70% is due on all of the income derived from petroleum transactions carried out under a joint venture agreement. Surface fees are also calculated based on production areas at a rate of US\$ 300 per square kilometer per year. A production royalty is due on non-profit-sharing agreements (PSA) total hydrocarbons production less hydrocarbons used in field operations at a rate of 20% with possible reduction to 10%.

*Other taxes include (1) a petroleum transaction tax, (2) a surface fee and (3) a production royalty*

OIL AND FISCAL ACCOUNTS	2010	2011	2012	2013	2014	2015 (1)	2015 (2)
<b>Oil Sector</b>							
Annual oil production (million) (1)	641.5	605.9	631.8	626.3	604.4	669.1	669.1
Average daily oil production (million bpd)	1.76	1.66	1.73	1.72	1.66	1.83	1.83
Average oil price (US\$ per barrel) (2)	77.9	110.1	111.6	107.7	104.0	81.0	40.0
<b>Oil revenues (US\$ million) = (1) x (2)</b>	<b>49,969</b>	<b>66,710</b>	<b>70,509</b>	<b>67,453</b>	<b>62,858</b>	<b>54,197</b>	<b>26,764</b>
Exchange rate (US\$/AOA)	91.1	94.0	95.4	96.5	98.4	105.0	105.0
<b>Oil revenues (AOA billion) (3)</b>	<b>4,552</b>	<b>6,271</b>	<b>6,727</b>	<b>6,510</b>	<b>6,187</b>	<b>5,691</b>	<b>2,810</b>
<b>Government Accounts</b>							
<b>Oil related tax revenues (AOA billion) (4)</b>	<b>2,500</b>	<b>3,817</b>	<b>4,103</b>	<b>3,630</b>	<b>2,962</b>	<b>2,551</b>	<b>1,039</b>
<i>Implied tax rate (oil-related) = (4) / (3)</i>	<i>54.9%</i>	<i>60.9%</i>	<i>61.0%</i>	<i>55.8%</i>	<i>47.9%</i>	<i>44.8%</i>	<i>37.0%</i>

Note: (1) Initial Budget 2015; (2) Revised Budget 2015.  
Source: Angolan authorities and Eaglestone Securities.

Our sensitivity analysis includes five scenarios based on different implied tax rates for the oil sector. Scenario 1 considers an implied tax rate of 40%, Scenario 2 a rate of 45%, Scenario 3 a rate of 50%, Scenario 4 a rate of 55% and Scenario 5 a rate of 60%. We provide in the table on the next page of the report the detail of these calculations while the table below includes a brief summary of the impact that different oil prices and implied tax rates would have on the fiscal

*We assume five different scenarios with implied tax rates ranging from 40% to 60%*

balance expected by the government this year.

If we look at scenario 1 on the next page, we see that total revenues would increase by 8.4% relatively to the estimates provided in the revised 2015 budget if the average oil price increased to US\$ 45 per barrel this year. Revenues would increase by 13.6% if the oil price was to reach US\$ 50 and 34.5% in the best case scenario of our analysis consisting of an average oil price of US\$ 70. Moreover, the fiscal deficit would decrease to 5% of GDP with an oil price of US\$ 45, 3.8% with an oil price of US\$ 50 and, in the best case scenario, the government's fiscal accounts would reach a surplus of 1.1% of GDP. We recall that this is compared to the newly revised budget estimates for this year, which foresees an average oil price of US\$ 40 and an implied tax rate of 37%, and that expenditures would remain equal to what is already planned by the Angolan government for this year.

*In scenario 1 (oil price of US\$ 45 and implied tax rate of 40%), the fiscal deficit would decrease to 5% (vs. the 7% expected)*

SENSITIVITY ANALYSIS - FISCAL ACCOUNT 2015							
		Average Oil Price (US\$)					
		45.0	50.0	55.0	60.0	65.0	70.0
Implied Tax Rate	40%	-5.0%	-3.8%	-2.6%	-1.4%	-0.2%	1.1%
	45%	-3.7%	-2.3%	-0.9%	0.4%	1.8%	3.2%
	50%	-2.3%	-0.8%	0.7%	2.3%	3.8%	5.3%
	55%	-0.9%	0.7%	2.4%	4.1%	5.8%	7.4%
	60%	0.4%	2.3%	4.1%	5.9%	7.8%	9.6%

Source: Eaglestone Securities.

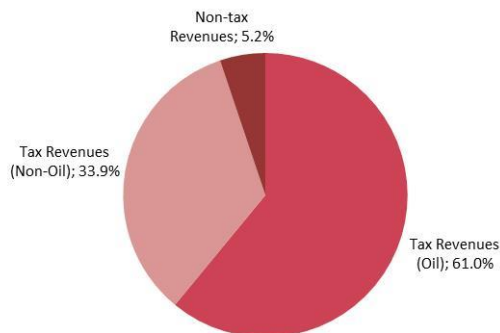
GOVERNMENT ACCOUNTS	SENSITIVITY ANALYSIS TO OIL PRICE (US\$/BARREL)					
AOA BILLION	45.0	50.0	55.0	60.0	65.0	70.0
<b>Scenario 1 (Oil Tax Rate of 40%):</b>						
<b>Revenues and Grants</b>	<b>2,918</b>	<b>3,059</b>	<b>3,199</b>	<b>3,340</b>	<b>3,480</b>	<b>3,621</b>
<i>% of GDP</i>	25.3%	26.5%	27.7%	29.0%	30.2%	31.4%
Tax Revenues	2,701	2,842	2,982	3,123	3,263	3,404
Oil Revenues	1,265	1,405	1,546	1,686	1,827	1,967
<i>% of Total Tax Revenues</i>	46.8%	49.4%	51.8%	54.0%	56.0%	57.8%
Change in Revenues vs. Revised Budget 2015	8.4%	13.6%	18.8%	24.0%	29.2%	34.5%
<b>Scenario 2 (Oil Tax Rate of 45%):</b>						
<b>Revenues and Grants</b>	<b>3,076</b>	<b>3,234</b>	<b>3,392</b>	<b>3,550</b>	<b>3,708</b>	<b>3,866</b>
<i>% of GDP</i>	26.7%	28.0%	29.4%	30.8%	32.1%	33.5%
Tax Revenues	2,859	3,018	3,176	3,334	3,492	3,650
Oil Revenues	1,423	1,581	1,739	1,897	2,055	2,213
<i>% of Total Tax Revenues</i>	49.8%	52.4%	54.8%	56.9%	58.9%	60.6%
Change in Revenues vs. Revised Budget 2015	14.2%	20.1%	26.0%	31.9%	37.7%	43.6%
<b>Scenario 3 (Oil Tax Rate of 50%):</b>						
<b>Revenues and Grants</b>	<b>3,234</b>	<b>3,410</b>	<b>3,585</b>	<b>3,761</b>	<b>3,937</b>	<b>4,112</b>
<i>% of GDP</i>	28.0%	29.6%	31.1%	32.6%	34.1%	35.7%
Tax Revenues	3,018	3,193	3,369	3,544	3,720	3,896
Oil Revenues	1,581	1,756	1,932	2,108	2,283	2,459
<i>% of Total Tax Revenues</i>	52.4%	55.0%	57.4%	59.5%	61.4%	63.1%
Change in Revenues vs. Revised Budget 2015	20.1%	26.6%	33.2%	39.7%	46.2%	52.7%
<b>Scenario 4 (Oil Tax Rate of 55%):</b>						
<b>Revenues and Grants</b>	<b>3,392</b>	<b>3,585</b>	<b>3,779</b>	<b>3,972</b>	<b>4,165</b>	<b>4,358</b>
<i>% of GDP</i>	29.4%	31.1%	32.8%	34.4%	36.1%	37.8%
Tax Revenues	3,176	3,369	3,562	3,755	3,948	4,142
Oil Revenues	1,739	1,932	2,125	2,318	2,512	2,705
<i>% of Total Tax Revenues</i>	54.8%	57.4%	59.7%	61.7%	63.6%	65.3%
Change in Revenues vs. Revised Budget 2015	26.0%	33.2%	40.3%	47.5%	54.7%	61.9%
<b>Scenario 5 (Oil Tax Rate of 60%):</b>						
<b>Revenues and Grants</b>	<b>3,550</b>	<b>3,761</b>	<b>3,972</b>	<b>4,183</b>	<b>4,393</b>	<b>4,604</b>
<i>% of GDP</i>	30.8%	32.6%	34.4%	36.3%	38.1%	39.9%
Tax Revenues	3,334	3,544	3,755	3,966	4,177	4,388
Oil Revenues	1,897	2,108	2,318	2,529	2,740	2,951
<i>% of Total Tax Revenues</i>	56.9%	59.5%	61.7%	63.8%	65.6%	67.3%
Change in Revenues vs. Revised Budget 2015	31.9%	39.7%	47.5%	55.3%	63.2%	71.0%
Non-oil Revenues	1,437	1,437	1,437	1,437	1,437	1,437
Non-tax Revenues	217	217	217	217	217	217
<b>Expenditures</b>	<b>3,499</b>	<b>3,499</b>	<b>3,499</b>	<b>3,499</b>	<b>3,499</b>	<b>3,499</b>
<i>% of GDP</i>	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%
Current Expenditures	2,862	2,862	2,862	2,862	2,862	2,862
<b>Scenario 1 (Oil Tax Rate of 40%):</b>						
<b>Primary Fiscal Balance</b>	<b>56</b>	<b>196</b>	<b>337</b>	<b>477</b>	<b>618</b>	<b>758</b>
<i>% of GDP</i>	0.5%	1.7%	2.9%	4.1%	5.4%	6.6%
<b>Overall Fiscal Balance</b>	<b>-581</b>	<b>-441</b>	<b>-300</b>	<b>-160</b>	<b>-19</b>	<b>121</b>
<i>% of GDP</i>	-5.0%	-3.8%	-2.6%	-1.4%	-0.2%	1.1%
<b>Scenario 2 (Oil Tax Rate of 45%):</b>						
<b>Primary Fiscal Balance</b>	<b>214</b>	<b>372</b>	<b>530</b>	<b>688</b>	<b>846</b>	<b>1,004</b>
<i>% of GDP</i>	1.9%	3.2%	4.6%	6.0%	7.3%	8.7%
<b>Overall Fiscal Balance</b>	<b>-423</b>	<b>-265</b>	<b>-107</b>	<b>51</b>	<b>209</b>	<b>367</b>
<i>% of GDP</i>	-3.7%	-2.3%	-0.9%	0.4%	1.8%	3.2%
<b>Scenario 3 (Oil Tax Rate of 50%):</b>						
<b>Primary Fiscal Balance</b>	<b>372</b>	<b>547</b>	<b>723</b>	<b>899</b>	<b>1,074</b>	<b>1,250</b>
<i>% of GDP</i>	3.2%	4.7%	6.3%	7.8%	9.3%	10.8%
<b>Overall Fiscal Balance</b>	<b>-265</b>	<b>-89</b>	<b>86</b>	<b>262</b>	<b>438</b>	<b>613</b>
<i>% of GDP</i>	-2.3%	-0.8%	0.7%	2.3%	3.8%	5.3%
<b>Scenario 4 (Oil Tax Rate of 55%):</b>						
<b>Primary Fiscal Balance</b>	<b>530</b>	<b>723</b>	<b>916</b>	<b>1,110</b>	<b>1,303</b>	<b>1,496</b>
<i>% of GDP</i>	4.6%	6.3%	7.9%	9.6%	11.3%	13.0%
<b>Overall Fiscal Balance</b>	<b>-107</b>	<b>86</b>	<b>280</b>	<b>473</b>	<b>666</b>	<b>859</b>
<i>% of GDP</i>	-0.9%	0.7%	2.4%	4.1%	5.8%	7.4%
<b>Scenario 5 (Oil Tax Rate of 60%):</b>						
<b>Primary Fiscal Balance</b>	<b>688</b>	<b>899</b>	<b>1,110</b>	<b>1,320</b>	<b>1,531</b>	<b>1,742</b>
<i>% of GDP</i>	6.0%	7.8%	9.6%	11.4%	13.3%	15.1%
<b>Overall Fiscal Balance</b>	<b>51</b>	<b>262</b>	<b>473</b>	<b>683</b>	<b>894</b>	<b>1,105</b>
<i>% of GDP</i>	0.4%	2.3%	4.1%	5.9%	7.8%	9.6%

Source: Angolan authorities and Eaglestone Securities.



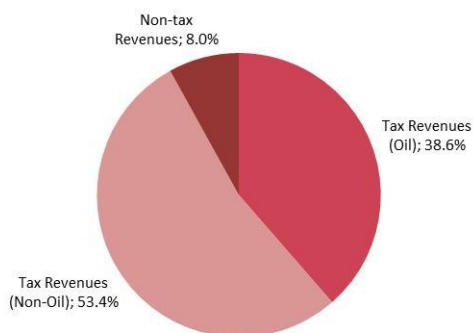
**ANNEX – BREAKDOWN OF REVENUES AND EXPENDITURES**

**BUDGET 2015 - REVENUES (AOA 4,185 BLN)**



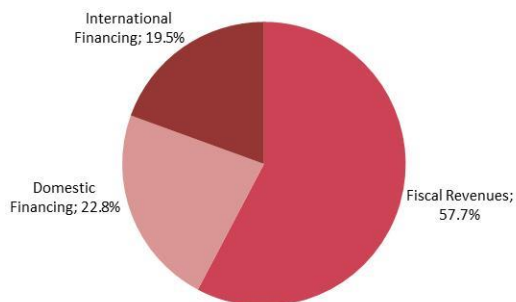
Source: Angolan authorities.

**REVISED BUDGET 2015 – REVENUES (AOA 2,693 BLN)**



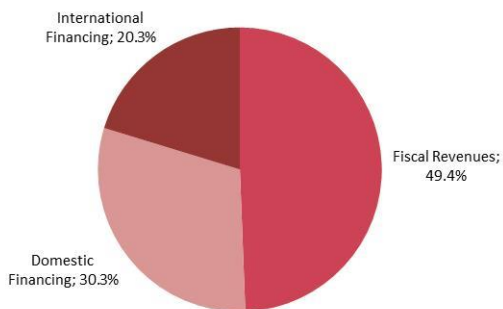
Source: Angolan authorities.

**BUDGET 2015 - REVENUES BY ACTIVITY (AOA 7,252 BLN)**



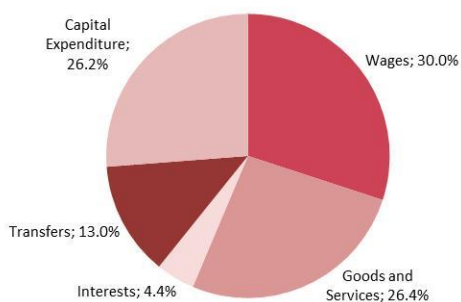
Source: Angolan authorities.

**REVISED BUDGET 2015 – REV. BY ACTIVITY (AOA 5,454 BLN)**



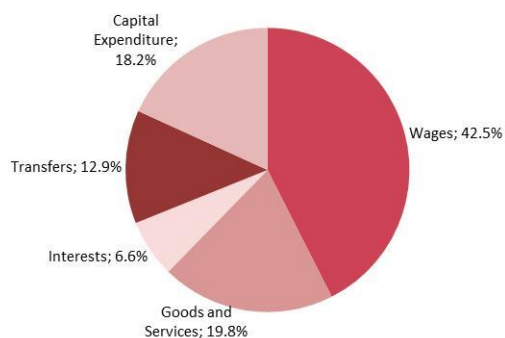
Source: Angolan authorities.

**BUDGET 2015 - EXPENDITURES (AOA 5,216 BLN)**



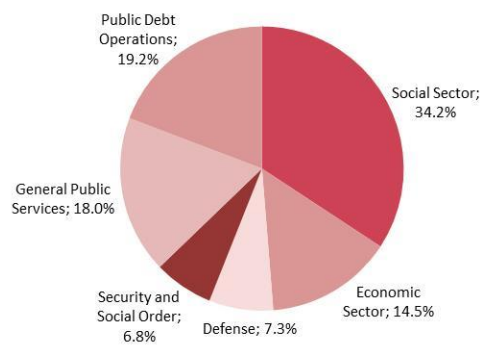
Source: Angolan authorities.

**REVISED BUDGET 2015 - EXPENDITURES (AOA 3,499 BLN)**



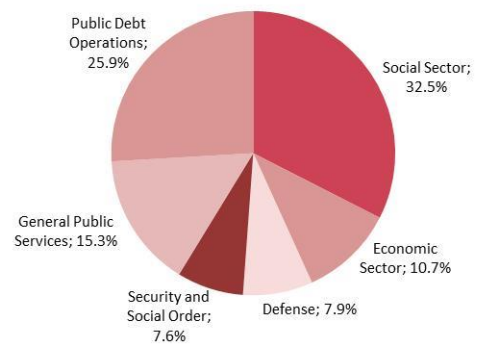
Source: Angolan authorities.

**BUDGET 2015 – EXP. BY ACTIVITY (AOA 7,252 BLN)**



Source: Angolan authorities.

**REVISED BUDGET 2015 – EXP. BY ACTIVITY (AOA 5,454 BLN)**



Source: Angolan authorities.

This document has been prepared by Eaglestone Advisory Limited which is authorised and regulated by the Financial Conduct Authority of the United Kingdom and its affiliates ("Eaglestone"), and is provided for information purposes only.

The information and opinions in this document are published for the assistance of the recipients, are for information purposes only, and have been compiled by Eaglestone in good faith using sources of public information considered reliable. Although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading we make no representation regarding its accuracy or completeness, it should not be relied upon as authoritative or definitive, and should not be taken into account in the exercise of judgments by any recipient. Accordingly, with the exception of information about Eaglestone, Eaglestone makes no representation as to the accuracy or completeness of such information.

This document does not have regard to specific investment objectives, financial situation and the particular needs of any specific recipient. Recipients should seek financial advice regarding the appropriateness of investment strategies discussed or recommended in this document and should understand that the statements regarding future prospects may not be realised. Unless otherwise stated, all views (including estimates, forecasts, assumptions or perspectives) herein contained are solely expression Eaglestone's research department.

This document must not be considered as an offer to sell or a solicitation to buy any investment instrument and distribution of this document does not oblige Eaglestone to enter into any transaction. Nothing in this document constitutes investment, legal, tax or accounting advice. The opinions expressed herein reflect Eaglestone's point of view as of the date of its publication and may be subject to change without prior notice

This document is intended for is made to and directed at (i) existing clients of Eaglestone and/or (ii) persons who would be classified as a professional client or eligible counterparty under the FCA Handbook of Rules and Guidance if taken on as clients by Eaglestone and/or (iii) persons who would come within Article 19 (investment professionals) or Article 49 (high net worth companies, trusts and associations) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001 and/or (iv) persons to whom this communication could otherwise be lawfully made in the United Kingdom or by respective home jurisdictions regulators for non UK countries. None of the investments or investment services mentioned or described herein are available to "private customers" as defined by the rules of the Financial Conduct Authority ("FCA"). It should not be disclosed to retail clients (or equivalent) and should not be distributed to others or replicated without the consent of Eaglestone. Eaglestone name and the eagle logo are registered trademarks.

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

JOHANNESBURG -Unit 4, Upper Ground, Katherine & West 114 West Street, Sandton – T: +27 11 326 6644

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 nº 35/37 - 9th Floor B- Kinaxixi, Ingombotas - T: +244 222 441 362

MAPUTO - Rua dos Desportistas Edifício 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](mailto:caroline.ferreira@eaglestone.eu)

### Research

**Tiago Bossa Dionísio**

(+351) 211 214 431

[tiago.dionisio@eaglestone.eu](mailto:tiago.dionisio@eaglestone.eu)

**Guido Varatojo dos Santos**

(+351) 211 214 468

[guido.santos@eaglestone.eu](mailto:guido.santos@eaglestone.eu)