The Angolan Economy

Under (oil) pressure

Research
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Economics
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Oil crisis of 2008-09 relived?

Angola was better prepared to face the current oil price shock at the end of 2014 than it was at the start of the previous crisis back in 2008-09. Foreign reserves at the BNA amounted to US$ 27.3 billion in December (covering about six months of imports) whereas at the start of the 2008-09 oil crisis they stood at US$ 17.5 billion (covering 3.5 months of imports). Inflation stood near 7.5% (vs. 13-14% in 2008-09) while the budget deficit ended 2014 at an estimated 3.1% of GDP, lower than in 2008-09. However, with oil still accounting for about 37% of the country's GDP, 98% of its exports and 68% of fiscal revenues in 2014, it is no surprise that the current sharp drop in oil prices is having a severe impact on many fronts, leading some to question whether Angola will end up requiring IMF assistance once again this time around.

Sharply lower oil prices hit local economy

Growth is slowing while confidence levels in the main sectors of the economy continued to fall in the first half of 2015. External accounts are deteriorating on the back of lower oil exports and a persistently high dependence on imported goods. Inflation has climbed once again to double-digits in recent months, reflecting in large part the impact of the depreciation of the kwanza, which the BNA is trying to contain through tighter monetary policy measures. The government has also had to cut back aggressively on fiscal spending, including investment, as seen in the latest budget report for 1Q15.

Downgrade in economic growth forecasts

The Angolan authorities have cut their real GDP growth forecasts three times this year as a result of the current plunge in oil prices. They currently expect economic activity to expand 4% this year and 3.5% in 2016. The IMF remains more cautious though with an estimate of 3.5% for both years. Most of these revisions came in the non-oil sector, namely in construction, transport and energy. We believe the existing volatility in global oil markets could present further downside risks to Angola's economic growth outlook in the near future. One should also bear in mind the expected weaker performance of the Chinese economy going forward and the fact that China remains Angola's main trading partner.

Public debt increases as government secures more loans

The government announced that it plans to increase public spending in the second half of the year as more funds from recently secured loans become available. This means that public debt is expected to increase significantly this year, likely above 50% of GDP. Efforts to accelerate fiscal reforms are therefore required, namely by continuing to reduce fuel subsidies and increasing non-oil sector tax collection. This would help improve fiscal consolidation and contain the climb in public debt levels. That said, the local authorities are more than likely to continue to pay very close attention to spending on the social sector while critical infrastructure investment is expected to resurface in the months ahead, particularly as we move closer to the next general elections scheduled for 2017.

ECONOMIC ACTIVITY

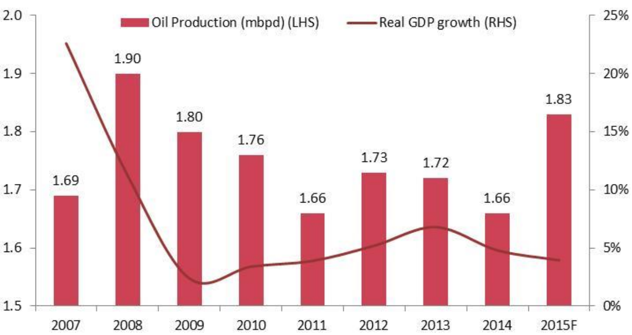
The oil sector still plays a major role in the Angolan economy despite the diversification efforts

The Angolan authorities have adopted economic policies aimed at diversifying the economy away from the oil sector in recent years. A significant part of these policies has been centered on raising infrastructure investment and implementing structural reforms in order to improve the country's business environment, which remains poor when compared with other countries in Sub-Saharan Africa. However, despite these efforts, the oil sector continues to play a major role in the local economy, as economic activity remains highly correlated to oil production.

Economic activity was impacted by lower oil production and prices in 2014

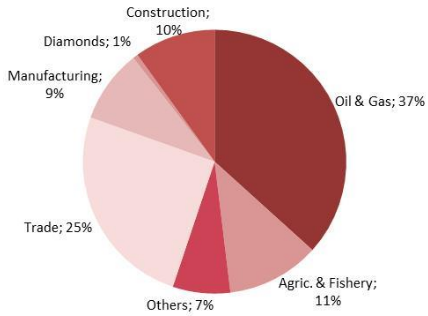
It is therefore no major surprise that economic growth was adversely impacted by lower oil production and prices in 2014, which declined 40% in the second half of the year alone. The oil sector was hit by prolonged maintenance issues and supply problems at some fields, leading annual oil production to fall by nearly 4% from 2013 levels. It meant that real GDP growth slowed to an estimated 4.8% last year from 6.8% in 2013. Overall, the oil sector accounted for 37% of the country's GDP, nearly 98% of its exports and 68% of fiscal revenues in the period.

OIL PRODUCTION AND REAL GDP GROWTH



Source: Angolan authorities.

GDP STRUCTURE (2014)



Source: Angolan authorities.

The Angolan economy continues to be severely affected by much lower oil prices this year

The Angolan economy is still being severely affected by the sharp decline in oil prices in 2015 (down by a further 15%). The local authorities have tried to avoid the oil production issues that occurred in 2014 while at the same time ramp up production at some oil fields. Oil output is projected to rebound to 1.835 million barrels per day (bpd), a more than 10% annual increase from last year's levels. Although higher oil production should partly offset the negative impact of reduced oil prices, the latter is still expected to have profound effects on economic growth.

Fiscal spending was cut by a third in the revised budget approved in February

Meanwhile, the government announced a revised fiscal budget earlier in the year to reflect the impact of lower oil prices on its fiscal and economic growth outlooks (for more on this please refer to our research note "An uphill struggle in 2015" dated March 2015). In the revised budget, fiscal spending was lowered by a third, with public investment cut by 44%. A number of major projects had to be postponed too. Growth in sectors like construction, transport and energy were all revised downwards from their initial estimates.

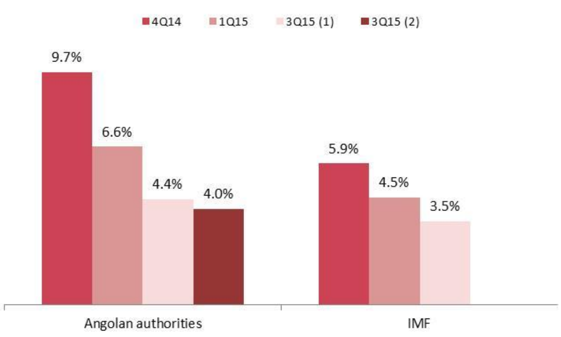
The government lowered its real GDP growth forecast for this year when it presented a revised budget

In particular, the local government lowered its economic growth forecast to 6.6% in the revised budget (approved in 1Q15) from 9.7% in the initial budget (approved in 4Q14). Most of this revision came in the non-oil sector (5.3% from 9.2% in the initial budget). The overall growth estimate remained nevertheless well above the IMF's own forecast of 4.5% at the time.

The local authorities currently expect economic activity to advance 4% this year, higher than the IMF's 3.5% estimate

More recently though, the Angolan authorities lowered their growth estimates twice in a very short period of time. The BNA announced in its latest inflation report that it was cutting its forecast to 4.4% this year. The central bank expected activity in the oil sector to improve by 7.8% and 2.9% in the non-oil sector. This figure was reportedly revised once again a few weeks later at a seminar attended by the BNA governor. The current estimate now stands at 4% for 2015, still above the IMF's own target of 3.5%, as depicted in the graphs below.

REAL GDP GROWTH REVISION



(1) BNA Inflation Report (July); (2) Angola-Brazil Economic Forum (September). Sources: Angolan authorities and IMF.

REAL GDP GROWTH REVISION BY SECTOR

Source: Angolan authorities.

Against an existing volatile global oil market, we believe there is a strong possibility of further downgrades to Angola's growth forecasts in 2015 (and possibly in 2016). One should also bear in mind the expected weaker performance of the Chinese economy going forward and the fact that China remains Angola's main trading partner. It is reported that China buys nearly half of Angola's crude oil and so a slowdown in China would impact Angola's exports. On top of this, Chinese authorities could also become more reluctant to provide (or extend) loans to Angola on favorable terms. In a nutshell, in the absence of a recovery in oil prices in the months ahead we see further downside risks for Angola in the near-term and believe that these risks could extend into 2016.

A slowdown in China is likely to impact Angola and could lead to further downgrades in growth estimates

FISCAL ACCOUNTS

The latest budget execution report released by Angola's Ministry of Finance showed that total government revenues amounted to AOA 925 billion in 1Q15. This corresponds to 17% of the annual target set out in the amended budget for 2015 (vs. an execution rate of 18% in 1Q14). At the same time, it represents a 29% annual drop when compared with the same period of 2014. In terms of expenditures, they reached AOA 673 billion in 1Q15, with an execution rate standing at just 12% of the budgeted figure for the year (vs. 19% in 1Q14). Total expenditures fell 51% from a year ago. This means that the first three months of 2015 saw a budget surplus of AOA 252 billion, which contrasts with a budget deficit of AOA 63 billion in 1Q14.

Figures from the Ministry of Finance showed a low execution rate in both revenues and expenditures as well as a budget surplus in 1Q15

REVENUES AOA BILLION	Budgeted (2015)	Executed (1Q15)	Execution Rate
Current Revenues	**2,692**	**755**	**28%**
Taxes	1,833	476	26%
Concessionary Rights	817	263	32%
Services	23	17	72%
Current Transfers	0	0	0%
Other Current Revenues	19	0	0%
Indemnities	1	0	8%
Capital Revenues	**2,762**	**170**	**6%**
Disposals	2	0	18%
Financing	2,516	169	7%
Domestic	1,410	169	12%
International	1,106	0	0%
Capital Transfers	0	0	0%
Reversal of Previous Result	244	0	0%
Total	**5,454**	**925**	**17%**

EXPENDITURES AOA BILLION	Budgeted (2015)	Executed (1Q15)	Execution Rate
Current Expenditures	**3,051**	**580**	**19%**
Wages	1,466	315	22%
Goods	243	18	8%
Services	416	46	11%
Interests	231	13	5%
Subsidies	398	101	25%
Current Transfers	298	87	29%
Capital Expenditures	**2,346**	**93**	**4%**
Investments	605	63	10%
Capital Transfers	53	2	3%
Financing Capital Expenditures	1,670	29	2%
Other Capital Expenditures	18	0	0%
Reserves	**58**	**0**	**0%**
Budget Reserve	58	0	0%
Total Expenditures	**5,454**	**673**	**12%**
Positive Budget Balance		**252**	
Total	**5,454**	**925**	**17%**

Source: Ministry of Finance (Budget Execution Report).

Looking closer at the revenue figures, one can see that the collection of current revenues (like taxes) went according to plan in the first three months of the year. It was also well above the execution rate of 22% in 1Q14. This performance was boosted by a favorable collection of oil revenues (AOA 385 billion, or 38% of the annual target vs. 21% a year ago). Still, revenues

The collection of current revenues went according to plan during 1Q15, despite the drop of 29% YoY from the oil sector declined 46% YoY in 1Q15, clearly reflecting the strong drop in oil prices in the period. Capital revenues posted a very weak execution rate of just 6% in 1Q15, falling by nearly a third from the previous year.

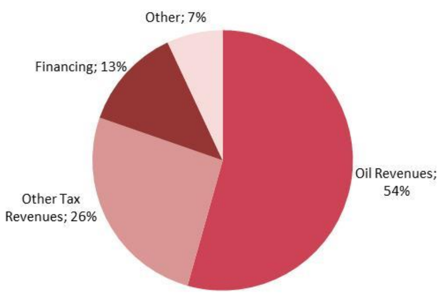
REVENUES							YoY %	
AOA BILLION	**Budgeted (2014)**	**Executed (1Q14)**	**Execution Rate**	**Budgeted (2015)**	**Executed (1Q15)**	**Execution Rate**	**Budgeted**	**Executed**
Current Revenues	**4,860**	**1,057**	**22%**	**2,692**	**755**	**28%**	**-45%**	**-29%**
Oil Revenues	3,313	711	21%	1,003	385	38%	-70%	-46%
Diamond Revenues	5	2	49%	5	2	30%	8%	-35%
Other Tax Revenues	1,372	340	25%	1,354	352	26%	-1%	4%
Other Current Revenues	169	4	0%	329	17	0%	94%	285%
Capital Revenues	**2,399**	**250**	**10%**	**2,762**	**170**	**6%**	**15%**	**-32%**
Disposals	2	0	14%	2	0	18%	45%	83%
Financing	1,706	166	10%	2,516	169	7%	47%	2%
Other Capital Revenues	691	84	12%	244	0	0%	-65%	-100%
Total Revenues	**7,258**	**1,308**	**18%**	**5,454**	**925**	**17%**	**-25%**	**-29%**

Source: Ministry of Finance (Budget Execution Report).

The pie charts below with the revenue breakdown for the first three months of both 2014 and 2015 clearly show the impact of lower oil prices on the government's coffers. Although it still has the largest share of the pie, the contribution from oil revenues fell from 54% of the total in 1Q14 to 42% in the first three months of 2015.

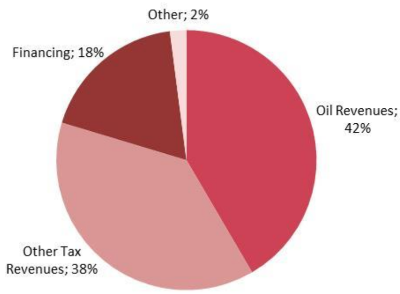
The contribution of oil revenues has fallen markedly this year

REVENUE BREAKDOWN (1Q14)



Source: Ministry of Finance (Budget Execution Reports).

REVENUE BREAKDOWN (1Q15)

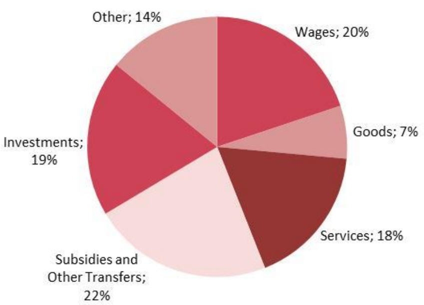


Source: Ministry of Finance (Budget Execution Reports).

In terms of expenditures, we highlight that current expenditures still represented the bulk of total government spending (86% vs. 68% in 1Q14), despite falling 38% from a year earlier. This is clearly evident when it comes to wages, which saw an increase of 16% YoY. The wage increase mostly reflects the hiring of new employees in the country's public sector. It meant that wages accounted for 47% of total government spending in 1Q15, well above the 20% they represented in the same period of the previous year. The public sector wage bill remains far excessive and is something that the IMF has called the attention of the local authorities several times that needs to come down and be more aligned with the new revenue reality of the budget.

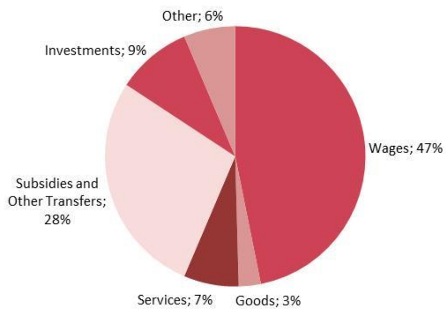
Current expenditures still account for the bulk of total government spending

EXPENDITURES BREAKDOWN (1Q14)



Source: Ministry of Finance (Budget Execution Reports).

EXPENDITURES BREAKDOWN (1Q15)



Source: Ministry of Finance (Budget Execution Reports).

Capital expenditures posted a very weak figure of just 4% of the annual target in 1Q15, likely reflecting the delay of some important investments the Angolan government had planned for the year. It is worth noting that the revised budget for the current year incorporated a 70% fall in investment levels while the executed figure for 1Q15 is already 76% lower than the level seen in the homologous period. The execution rate for investments was just 10% while its amount stood at only 9% of total government spending in 1Q15 (vs. 19% of the total in 1Q14).

Capital expenditures recorded a very weak figure, as the government likely delayed some important investments

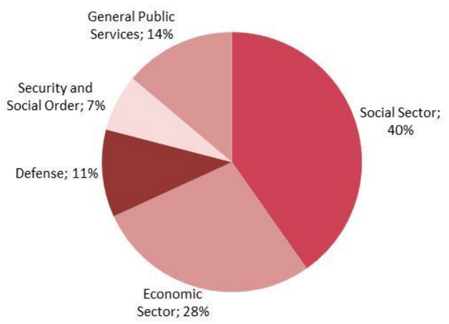
EXPENDITURES AOA BILLION	Budgeted (2014)	Executed (1Q14)	Execution Rate	Budgeted (2015)	Executed (1Q15)	Execution Rate	YoY % Budgeted	YoY % Executed
Current Expenditures	**3,905**	**929**	**24%**	**3,050**	**580**	**19%**	**-22%**	**-38%**
Wages	1,370	273	20%	1,465	315	22%	7%	16%
Goods	436	90	21%	243	18	8%	-44%	-79%
Services	1,061	240	23%	416	46	11%	-61%	-81%
Interests	128	19	15%	231	13	5%	81%	-33%
Subsidies and Other Transfers	910	307	34%	695	187	27%	-24%	-39%
Capital Expenditures	**3,310**	**441**	**13%**	**2,404**	**93**	**4%**	**-27%**	**-79%**
Investments	1,975	266	13%	602	63	10%	-70%	-76%
Capital Transfers	58	0	0%	54	2	3%	-7%	n.m.
Financing Capital Expenditures	1,137	36	3%	1,671	29	2%	47%	-19%
Other Capital Expenditures	140	139	100%	15	0	0%	-89%	-100%
Budget Reserve	**44**	**0**	**0%**	**63**	**0**	**0%**	**44%**	**n.m.**
Total Expenditures	**7,258**	**1,370**	**19%**	**5,454**	**673**	**12%**	**-25%**	**-51%**

Source: Ministry of Finance (Budget Execution Report).

Meanwhile, looking at expenditures by sector, the contribution from the social sector rose to 45% of the total (from 40% in 1Q14) as did spending on defense, security and social order. The latter represented a combined 30% of total government spending in 1Q15, significantly above the 18% in the same period of 2014. However, the execution rate in the social and defense sectors was well below the levels seen in 1Q14 after their significant annual fall reflected a lower budget allocation. On the other hand, spending on economic sector matters (like public debt operations, transports and fuel and energy) declined from 28% to 15%, as it reached only 5% of the annual target in the first three months of the year. Spending on this sector tumbled 73% from the same period of 2014.

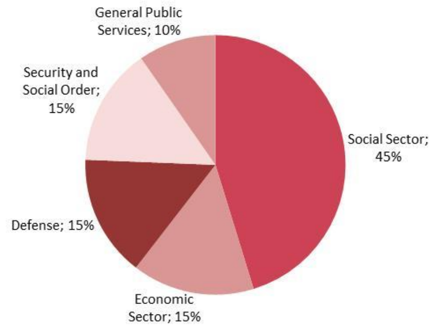
Spending on the social sector, defense, security and social order accounted for a larger share of total expenditures

EXPENDITURES BREAKDOWN BY SECTOR (1Q14)



Source: Ministry of Finance (Budget Execution Reports).

EXPENDITURES BREAKDOWN BY SECTOR (1Q15)



Source: Ministry of Finance (Budget Execution Reports).

EXPENDITURES AOA BILLION	Budgeted (2014)	Executed (1Q14)	Execution Rate	Budgeted (2015)	Executed (1Q15)	Execution Rate	YoY % Budgeted	YoY % Executed
Social Sector	2,224	552	25%	1,803	305	17%	-19%	-45%
Education	447	97	22%	486	90	19%	9%	-7%
Health	358	69	19%	276	34	12%	-23%	-51%
Social Protection	698	252	36%	708	158	22%	1%	-37%
Housing	575	104	18%	258	13	5%	-55%	-87%
Other	146	30	20%	74	9	13%	-49%	-69%
Economic Sector	2,321	382	16%	1,982	102	5%	-15%	-73%
Defense	672	149	22%	688	102	15%	2%	-32%
Security and Social Order	521	97	19%	164	99	60%	-69%	1%
General Public Services	1,520	190	12%	817	65	8%	-46%	-66%
Total Expenditures	**7,258**	**1,370**	**19%**	**5,454**	**673**	**12%**	**-25%**	**-51%**

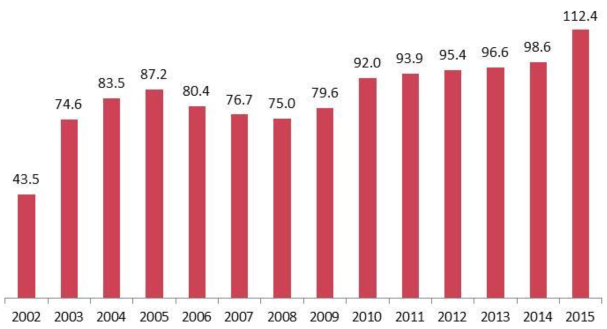
Source: Ministry of Finance (Budget Execution Report).

MONETARY POLICY

The kwanza exchange rate has remained relatively stable against the dollar in recent years at just below 100 kwanzas to the dollar (US$/AOA). However, the Angolan currency came under severe pressure following the sharp drop in international oil prices, particularly in the latter stages of 2014. The kwanza has maintained its depreciating trend against the dollar this year, as significantly lower oil prices have led to a marked decline in foreign exchange inflows.

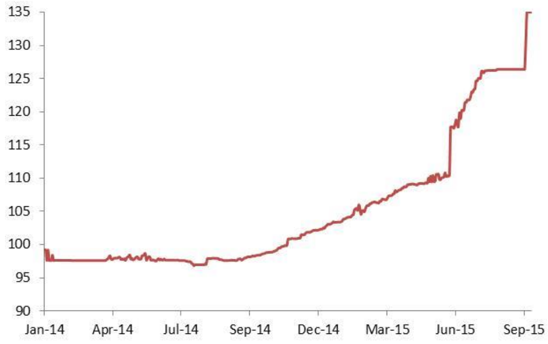
The Angolan kwanza has come under severe pressure since the start of the decline in oil prices

AVERAGE ANNUAL EXCHANGE RATE (US$/AOA)



Source: BNA.

RECENT EXCHANGE RATE PERFORMANCE (US$/AOA)

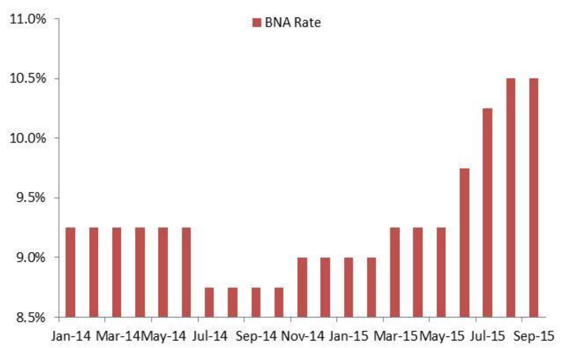


Source: BNA.

The BNA has tried to contain this depreciating spiral of the kwanza by tightening liquidity conditions in recent months. It has increased the BNA rate four times since November of last year (November, March, June and July), lifting its reference rate a combined 175 bps to 10.5%. It has also raised the banks' mandatory reserve requirements three times (from 12.5% at the end of last year to 25% currently).

The BNA has tightened liquidity conditions by increasing the BNA rate and mandatory reserve requirements

EVOLUTION OF THE BNA RATE



Source: BNA.

KWANZA RESERVE REQUIREMENTS

Source: BNA.

Moreover, the central bank intervened in the foreign exchange market in order to allow an orderly depreciation of the kwanza. In early June, the BNA devalued the kwanza by changing the rates at which it buys and sells foreign currency to commercial banks. The US$/AOA exchange rate went from 110 to 117 that month, a depreciation of almost 7%.

The central bank intervened in the FX market to allow an orderly depreciation of the kwanza

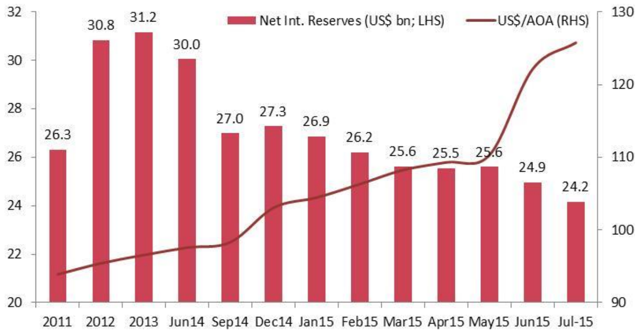
It also increased foreign currency sales to commercial banks that month so that it met the excessive dollar demand. The amount sold surged 71% MoM to US$ 2,200 million in the period. This is 34% higher than the average of US$ 1,659 million sold in the previous twelve months. However, foreign currency sales usually peak in the middle of the year, which meant that the level sold in June 2015 was 15% lower than in the same period a year earlier.

It also increased foreign currency sales to commercial banks

These moves failed to contain the pressure felt by the kwanza as well as the wide spread that existed between the official exchange rate and the one in the parallel market. The Angolan currency depreciated at an even faster pace during the rest of June until mid-July when it reached 126 and remained fairly stable at around this level until recently. In September, the

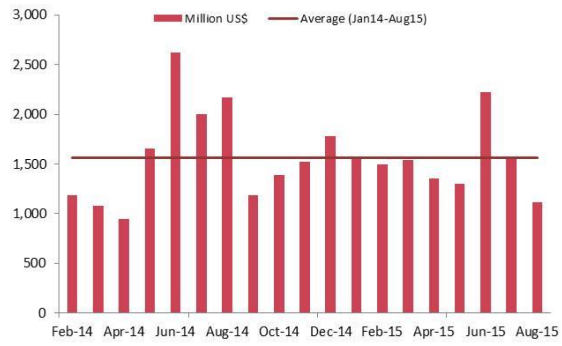
The kwanza remained stable until July, but has depreciated about 8% since then central bank devalued the kwanza again, lifting the US$/AOA rate to its current level of 135. This means that the official exchange rate of the kwanza has depreciated more than 30% this year and nearly 38% in the last twelve months.

NET FOREIGN RESERVES AND EXCHANGE RATE (US$/AOA)



Source: BNA.

FOREIGN CURRENCY SALES TO COMMERCIAL BANKS



Source: BNA.

Meanwhile, foreign currency sales to commercial banks have slowed in recent weeks, making it harder for market participants to access foreign currency at the banks. This has lifted the exchange rate in the parallel market above 200 kwanzas per dollar. These tighter forex liquidity conditions, coupled with an expected depreciation of the kwanza in the foreseeable future, should also continue to affect those companies that rely more on foreign goods and services to operate and eventually drive imports lower.

The exchange rate in the parallel market can now exceed 200 kwanzas to the dollar

All in all, the central bank is expected to keep a close eye on the exchange rate going forward, in large part to avoid further inflationary pressures that have been witnessed this year where the inflation rate has once again climbed to double-digit figures, as described below. We do not rule out a further depreciation of the Angolan currency this year though. However, this could be limited by stronger foreign debt inflows that would provide the BNA with additional firepower to defend the kwanza.

The BNA is expected to keep a close watch on the exchange rate in order to avoid further inflationary pressures

INFLATION

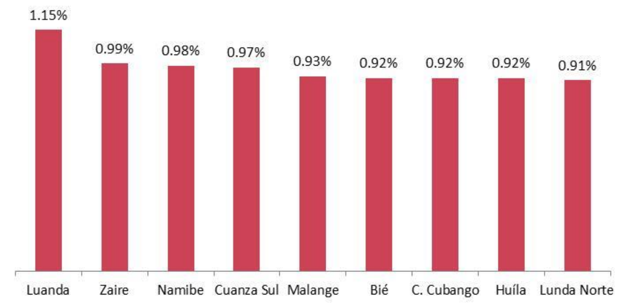
Angola's National Statistics Institute (INE) recently began to report the monthly change in the consumer price index (CPI) at the national level. The actual index is yet to be disclosed though. We note that up until now the statistics office only reported the change in the CPI for seven of the country's 18 provinces and that the CPI for Luanda was considered a proxy for the inflation rate in the country. The other six provinces were Benguela, Cabinda, Cunene, Huíla, Huambo and Namibe. The INE continues to disclose the CPI for Luanda and, as a result, one can assess for instance the yearly change in the index. However, for the reason mentioned above, this analysis is not possible yet at the national level.

The INE recently started to disclose the monthly change in the CPI at the national level

The latest data released by the INE showed that consumer prices in Angola advanced 1% in August 2015 relatively to the previous month. This followed price increases of 1.03%, 1.08% and 1.14% in the previous three months, respectively, at the national level. According to the statistics office, Luanda was the province that recorded the strongest monthly increase in prices (1.15%). It was followed by the provinces of Zaire (0.99%) and Namibe (0.98%). Cabinda and Benguela saw the lowest price increases (0.64% and 0.7%, respectively). The food & beverages group was responsible for more than half of the increase in prices in Angola while the contributions from the components clothing and shoes, furniture and housing and utilities were also quite relevant to explain the August performance.

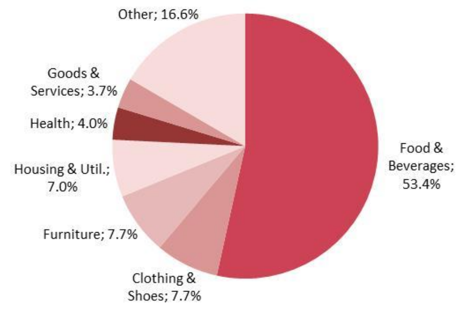
Angola saw a 1% monthly increase in prices in August where Luanda was the province that recorded the strongest increase (1.15%)

MONTHLY CPI CHANGE BY PROVINCE (AUG 2015)



Source: National Statistics Institute (INE).

CONTRIBUTION TO MONTHLY NATIONAL CPI (AUG 2015)



Source: National Statistics Institute (INE).

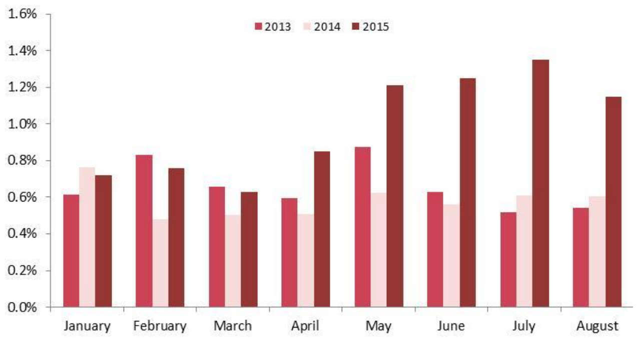
Monthly inflation in Luanda has deteriorated in recent months

The monthly CPI data for Luanda shows that prices have increased more significantly in the last five months (April through August). This is particularly evident when compared with the same months of the previous two years. If we look at the accumulated inflation of the first eight months of the years 2013-15, we see that consumer prices rose 8.2% this year, 4.75% in 2014 and 5.38% in 2013.

Inflation has reached double-digit figures, a level not seen for nearly three years

All in all, the graph below clearly shows that the downward trend in the yearly and 12-month average inflation for the province of Luanda has been reversed this year. Consumer prices increased 11.01% YoY in August, which compares with 7.48% in December 2014 and 7.05% in the homologous period. The inflation rate has now clearly surpassed the upper limit of the 7-9% target set by the Central Bank and is already at double-digit figures, a level not seen for nearly three years.

MONTHLY INFLATION IN LUANDA (2013-15)



Source: National Statistics Institute (INE).

INFLATION IN LUANDA (12-MONTH AVERAGE AND YOY)

Source: National Statistics Institute (INE).

TRADE BALANCE

Angola's trade balance fell 24% YoY in local currency terms during 2014

According to figures published by INE, Angola's trade balance reached AOA 2,943 billion (US$ 29.9 billion) in 2014, representing a fall of 24% in local currency terms from the previous year. This performance followed a 12% YoY fall in exports to AOA 5,761 billion (US$ 58.5 billion) and a 5% YoY increase in imports to AOA 2,818 billion (US$ 28.6 billion). Oil exports fell 12% YoY in the period, mostly reflecting lower oil production levels (1.66 million bpd vs. 1.72 in 2013) and average prices (US$ 104 per barrel vs. US$ 107.7 in 2013). They accounted for 97.8% of the country's total exports, which compares with 98.5% in the previous year. In terms of imports, we note the strong increase in the import of metals and machinery, with both of these representing a third of the total imports on a combined basis. The coverage ratio (equaling exports over imports) amounted to 204.4% in the period and compares with 244.1% a year ago.

Angola saw a strong drop in oil exports and a rapid expansion in the import of machinery in the first three months of 2015

More recently, trade balance figures for the first quarter of this year showed the same trends that were witnessed in 2014. Specifically, Angola recorded a very strong fall in exports (mostly oil related) and a rapid expansion in imports with the import of machinery more than doubling from the homologous period. As seen in the table below, this meant that the trade balance for the January-March 2015 period reached AOA 237 billion (US$ 2.2 billion), down 79% YoY in local currency terms, with the coverage ratio falling significantly to 137%.

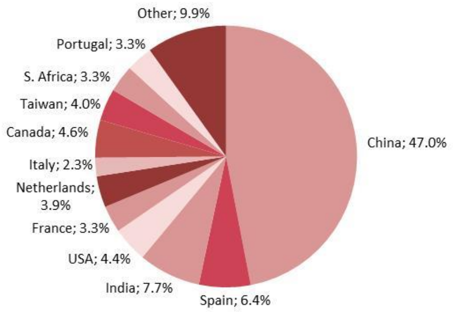
TRADE BALANCE AOA Billion	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015	% QoQ	% YoY	2013	2014	% YoY
Exports	**1,511**	**1,564**	**1,523**	**1,163**	**878**	**-24%**	**-42%**	**6,544**	**5,761**	**-12%**
Oil	1,481	1,537	1,491	1,130	848	-25%	-43%	6,443	5,638	-12%
Other	31	27	33	33	30	-8%	-1%	101	124	22%
Imports	**389**	**524**	**1,162**	**744**	**641**	**-14%**	**65%**	**2,681**	**2,818**	**5%**
Agriculture	48	47	97	70	44	-37%	-8%	298	262	-12%
Food	27	32	65	54	30	-43%	14%	189	177	-6%
Fuel	32	21	66	31	8	-75%	-75%	201	149	-26%
Chemicals	21	27	63	41	31	-26%	43%	136	153	12%
Plastics	13	17	35	30	19	-36%	50%	84	95	13%
Vehicles	60	79	143	93	68	-27%	14%	675	374	-45%
Metals	49	70	131	80	76	-4%	56%	266	330	24%
Machinery	86	101	277	157	248	58%	187%	533	621	17%
Other	53	130	285	189	117	-38%	118%	300	657	119%
Trade Balance	**1,123**	**1,040**	**362**	**419**	**237**	**-43%**	**-79%**	**3,863**	**2,943**	**-24%**
Coverage Ratio	389%	298%	131%	156%	137%	-19%	-252%	244%	204%	-40%

Source: National Statistics Institute (INE).

China is by far the biggest exporting market for Angola, as it consumes nearly half of Angola's oil exports

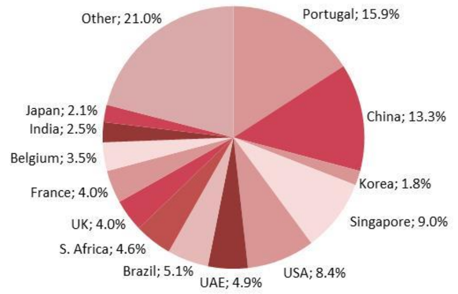
Meanwhile, China is by far the main exporting market for Angola, representing 47% of the total exports of the country in 2014. Angola reportedly exports half of its oil to China or, said differently it supplies nearly 15% of China's total oil requirements. India, Spain and Canada were also relevant markets, but if combined the three countries represented less than a fifth of Angola's total exports. Angola's main suppliers were more evenly distributed in 2014. Portugal was the largest supplier, representing 15.9% of total imports. China, Singapore and the US were the other three largest suppliers.

EXPORTS BY COUNTRY (2014)



Source: National Statistics Institute (INE).

IMPORTS BY COUNTRY (2014)

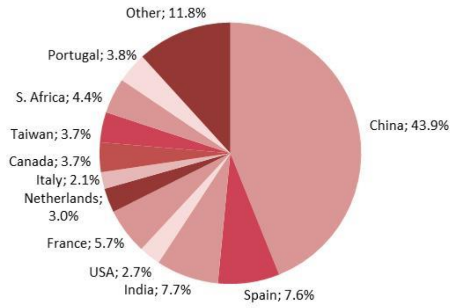


Source: National Statistics Institute (INE).

Korea and China passed Portugal as Angola's biggest suppliers in the first three months of 2015

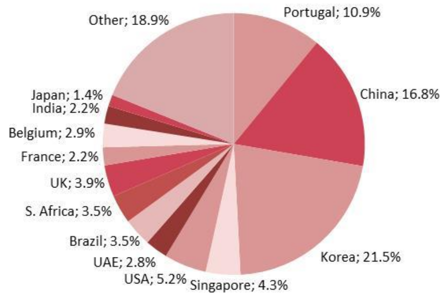
Figures from INE show that Angola continued to export a very relevant part of its products to China in the first three months of 2015. However, in terms of imports, we note that Korea has gained significant importance at the start of this year, accounting for 21.5% of Angola's total imports up until March of this year. China has also become a more relevant supplier of the country while Portugal continued to represent over 10% of total imports, despite clearly losing importance amongst the list of Angola's main suppliers.

EXPORTS BY COUNTRY (JAN-MAR 2015)



Source: National Statistics Institute (INE).

IMPORTS BY COUNTRY (JAN-MAR 2015)



Source: National Statistics Institute (INE).

CONFIDENCE INDICATORS

The INE publishes the results of survey on the confidence levels of the main companies operating in the key sectors of the Angolan economy on a quarterly basis

The INE publishes every quarter the results of a survey on the confidence levels of the most important companies operating in the main sectors of the Angolan economy. These sectors are retail, manufacturing, construction, extractive industry, transport, communication and tourism. The number of companies surveyed from each sector/industry is the following: retail (300), manufacturing (150), construction (50), extractive industry (32), transport (50), communication (30) and tourism (49). These companies operate in the provinces of Luanda, Benguela, Huila and Cuanza Sul. According to the INE, nearly 80% of Angolan companies are located in these four provinces and employ about 53.5% of the country's workforce.

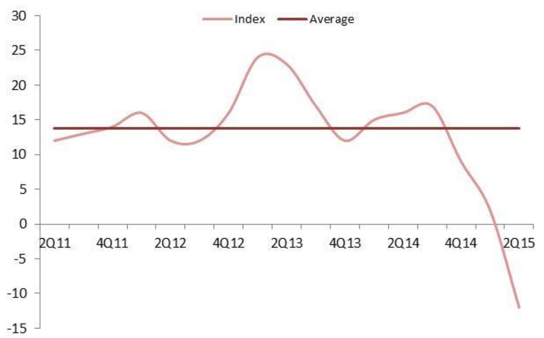
Confidence levels continued to fall in all sectors during 2Q15

The graphs below clearly demonstrate that confidence levels continued to fall in all of the sectors in 2Q15. They also show that current confidence levels remain well below the historical average in all of the sectors. Moreover, economic sentiment continued to deteriorate further in the first half of the year, remaining below its historical average.

The fall in the confidence index of the retail sector reflects the ongoing decline in economic activity in Angola

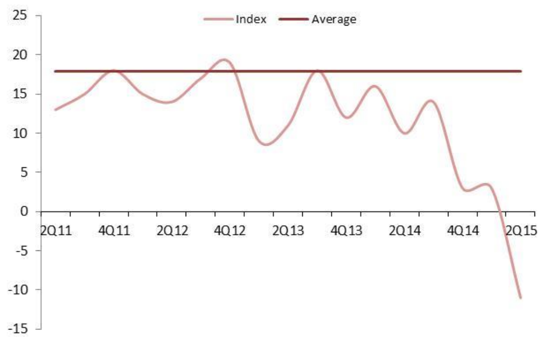
Specifically, the confidence index in the retail sector continued to fall during 2Q15 and reflects the ongoing decline in economic activity in Angola. Retailers stated that the main challenges in the sector included (1) excessive bureaucracy, (2) inventory breakdowns, (3) financial setbacks, (4) insufficient demand and (5) lack of qualified labor. Meanwhile, the confidence index in the manufacturing industry was significantly worse than in 1Q15. This was essentially due to (1) financial difficulties, (2) lack of raw materials and (3) frequent breakdowns in equipment.

RETAIL SECTOR CONFIDENCE INDEX



Source: National Statistics Institute (INE).

MANUFACTURING INDUSTRY CONFIDENCE INDEX

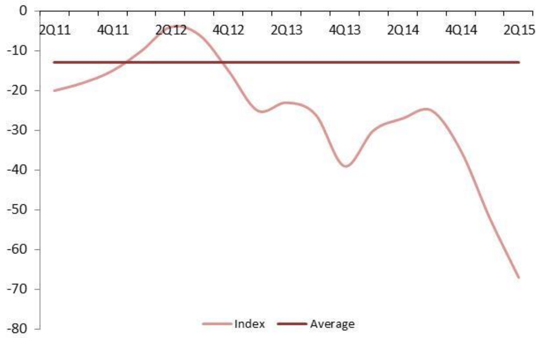


Source: National Statistics Institute (INE).

The confidence index in both the construction sector and the extractive industry remains well below its historical average

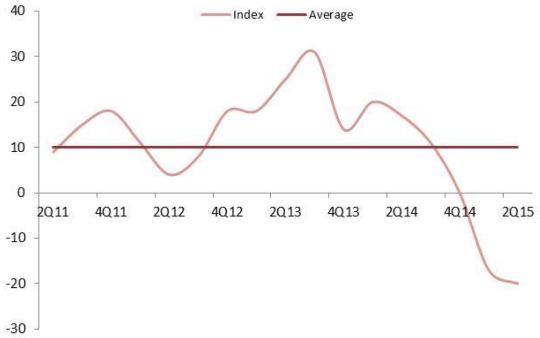
The confidence index in the construction sector kept its downward trend in 2Q15, reflecting the decline in the current order book, the outlook on the sector's activity and employment for the next quarter. The main constraints to the activity in the sector included (1) insufficient demand, (2) the high level of interest rates and (3) difficulties in obtaining bank loans. In terms of the extractive industry, its confidence index declined once again in the quarter to its lowest ever recorded reading. The companies operating in this sector stated that they mainly faced (1) financial difficulties, (2) lack of qualified labor and (3) excessive bureaucracy.

CONSTRUCTION SECTOR CONFIDENCE INDEX



Source: National Statistics Institute (INE).

EXTRACTIVE INDUSTRY CONFIDENCE INDEX

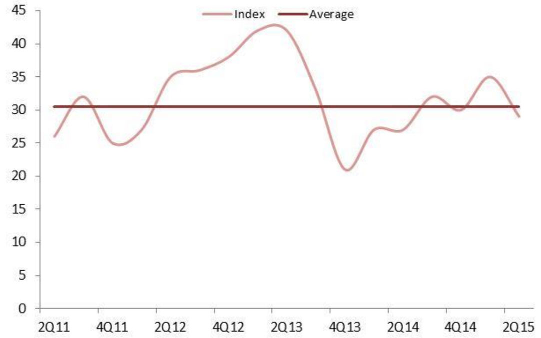


Source: National Statistics Institute (INE).

After an improvement recorded in the first three months of the year, the transport sector saw a decline in its confidence index in 2Q15, remaining very close to its historical average. The main constraints impacting the companies that operate in the transport sector included (1) financial difficulties, (2) strong competition and (3) lack of demand. Meanwhile, managers in the communication sector remained pessimistic about the activity in the sector, as the economic backdrop for the sector is unfavorable. The main factors affecting activity included (1) strong competition, (2) financial difficulties, (3) lack of banking credit, (4) excessive bureaucracy and (5) low demand for services.

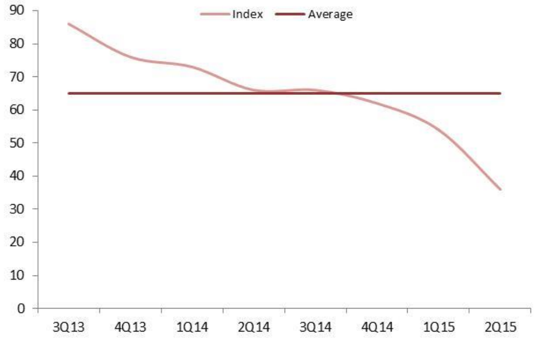
Confidence levels in the transport sector declined after a slight recover earlier in the year

TRANSPORT SECTOR CONFIDENCE INDEX



Source: National Statistics Institute (INE).

COMMUNICATION SECTOR CONFIDENCE INDEX

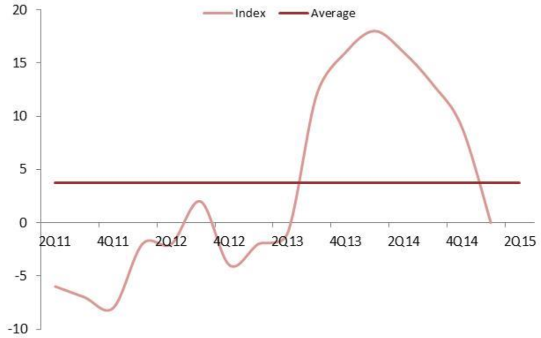


Source: National Statistics Institute (INE).

The confidence index for the tourism industry declined for the fifth consecutive quarter in 2Q15. Difficulties in finding skilled labor, insufficient demand, excessive bureaucracy and state regulation were mentioned by managers as the main constraints to doing business.

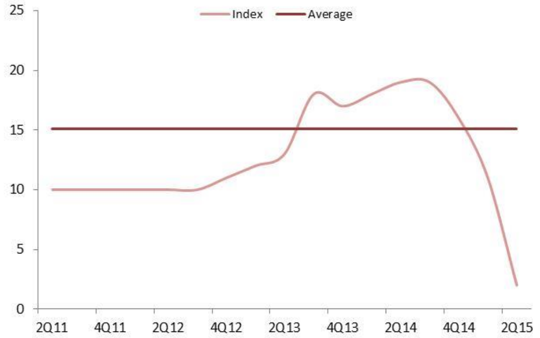
Confidence levels in the tourism industry fell for the fourth consecutive quarter

TOURISM INDUSTRY CONFIDENCE INDEX



Source: National Statistics Institute (INE).

ECONOMIC SENTIMENT INDEX



Source: National Statistics Institute (INE).

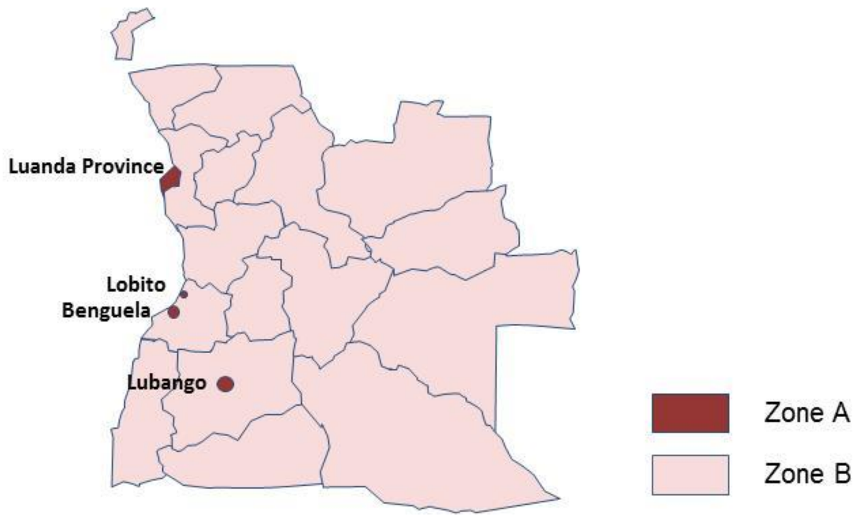
ANNEX I - PRIVATE INVESTMENT LAW

A new law in Angola sets out the guidelines for private investment (both foreign and domestic) in the country

A new Private Investment Law (PIL) was established this past August in Angola. It sets out the guidelines for private investments and is applicable to all foreign and domestic investments whose total amount is greater than AOA 50 million (equivalent to about US$ 0.4 million). The formalization of any private investment requires the celebration of an investment contract where the rights and responsibilities of the investor are specified. This contract also identifies, among other things, the sponsors, the investment amount and the attribution of any fiscal and customs benefits.

The negation of investment projects depends on its amount while tax benefits vary according to the investment's location

Meanwhile, the evaluation and negotiation of investment projects is done by the relevant ministry and approved by the Council of Ministers for investments up to US$ 10 million. Investments over US$ 10 million must be approved by the Presidency. Tax benefits vary according to the investment's location, namely Zone A and Zone B:



The PIL grants several rights to the investors and provides tax and customs benefits

The PIL grants to foreign investors the right to repatriate (1) distributed dividends and profits, (2) results of investment's liquidation and compensation acts and (3) royalties or other remunerations related with usage rights. Depending on the investment amount it also provides access to (1) tax benefits, namely the reduction in corporate income tax, SISA (property transfer tax) and tax on invested capital and (2) customs benefits, namely reduced custom tariffs over certain goods.

Investor Origin	Investment (US$ million)	Tax Benefits	Customs Benefits
Domestic	≥ 0.4* and < 1.0	Yes	No
	≥ 1.0	Yes	Yes
Foreign	< 1.0	No	No
	≥ 1.0	Yes	Yes

* US$ equivalent to AOA 50 million. Source: Private Investment Law (nº 14/15).

An investment shall benefit from tax reduction according to several criteria

The fiscal benefits granted are in accordance with objective criteria set out in the law. The investment shall benefit from a tax reduction that is calculated by adding the percentage points that, according to the investment's characteristics, each criteria provides as detailed below:

Criteria	Reduction in Tax Rates (CIT, SISA and TIC)			
Employment creation for Angolan nationals	Less than 50 Jobs	50 to 100 Jobs	101 to 500 Jobs	Over 500 jobs
	5.0%	7.5%	10.0%	12.5%
Investment (US$ million)	0.5 to 5	5 to 20	20 to 50	Over 50
	5.0%	7.5%	10.0%	12.5%
Investment Location	Zone A		Zone B	
	7.5%		15.0%	
Agricultural, livestock, forestry, fishing and related agro-industrial production	Zone A		Zone B	
	7.5%		15.0%	
Production for export	Less than 25%	25% to 50%	50% to 75%	Over 75%
	7.5%	10.0%	12.5%	15.0%
Angolan shareholders' stake	10% to 20%	20% to 35%	35% to 45%	45% to 50%
	7.5%	10.0%	12.5%	15.0%
National value added	Less than 25%	25% to 50%	50% to 75%	Over 75%
	7.5%	10.0%	12.5%	15.0%

Source: Private Investment Law (nº 14/15).

Special benefits may be granted for investments over US$ 50 million

Moreover, special benefits may be granted in case of investments over US$ 50 million that create 500 or 200 jobs for Angolan nationals in Zone A or Zone B, respectively. The fiscal benefits period ends when the tax savings equals the investment amount or at the end of its concession period:

- 4 years: for investments with a 10-30% tax reduction;
- 6 years: for investments with a 31-50% tax reduction;
- 8 years: for investments with a 51-70% tax reduction; and
- 10 years: for investments with a 71-100% tax reduction.

Angolan investors must have a minimum 35% stake and effective participation in the management of the project

The new PIL also states that Angolan investors must have a minimum 35% stake and effective participation in the management of the project, reflected in the shareholders' agreement, in case of foreign investment in sectors such as (1) electricity and water, (2) hospitality and tourism, (3) transports and logistics, (4) construction and (5) telecommunications and information technology.

Shareholders' loans are also limited to 30% of the investment made by the incorporated company

Shareholders' loans are also limited to 30% of the investment made by the incorporated company and can only be reimbursed after three years. The sum of supplementary capital, shareholders' loans and other forms of "indirect investment" are limited to 50% of the total amount of the investment.

The dividends and profits distributed that exceed the investor's participation in the investment equity are subject to a tax surcharge

Finally, the dividends and profits distributed that exceed the investor's participation in the investment's equity are subject to a tax surcharge:

- 15% when the amount exceeds its participation up to 20%;
- 30% when the amount exceeds its participation by more than 20% and up to 50%;
- 50% when the amount exceeds its participation by more than 50%; and
- Dividends/profits distributed to be reinvested in Angolan are exempt of any surcharge.

ANNEX II – ECONOMIC INDICATORS

FORECAST SUMMARY	2009	2010	2011	2012	2013	2014E	2015F	2016F
Gross Domestic Product (annual growth)								
Real GDP	2.4%	3.4%	3.9%	5.2%	6.8%	4.8%	3.7%	3.5%
Oil Sector	-5.1%	-2.9%	-5.6%	4.3%	-0.9%	-2.6%	4.1%	3.9%
Non-oil sector	8.3%	7.6%	9.7%	5.6%	10.9%	8.2%	3.5%	3.4%
Gross Domestic Product (current prices, AOA bn)	5,989	7,580	9,780	11,011	11,985	12,621	11,942	13,549
Gross Domestic Product (current prices, US$ bn)	75.5	82.5	104.1	115.3	124.2	128.6	106.1	118.0
Population (million)	21.0	21.7	22.3	23.0	23.7	24.4	25.1	25.9
Gross Domestic Product per capita (US$)	3,589	3,807	4,666	5,018	5,245	5,273	4,227	4,561
Investment (% of GDP)								
Total Investment	15.2%	14.4%	12.9%	14.9%	14.8%	14.1%	9.2%	10.4%
Gross National Savings	5.2%	23.5%	25.5%	26.9%	21.5%	13.3%	2.9%	6.3%
External Sector								
Exports of Goods & Services (annual growth)	-2.6%	-3.3%	-5.4%	3.8%	0.1%	-3.1%	12.7%	0.3%
Imports of Goods & Services (annual growth)	6.3%	-21.3%	10.1%	8.6%	8.9%	5.2%	-22.8%	5.5%
Current Account Balance (% of GDP)	-10.0%	9.1%	12.6%	12.0%	6.7%	-2.8%	-8.3%	-6.2%
Oil Sector								
Production (million bpd)	1.80	1.76	1.66	1.73	1.72	1.66	1.83	1.95
Price (US$ per barrel)	60.9	77.9	110.9	111.6	107.7	104.0	56.2	60.0
Consumer Price Inflation								
Consumer Prices (period average)	13.7%	14.5%	13.5%	10.3%	8.8%	7.3%	9.9%	10.5%
Consumer Prices (end of period)	14.0%	15.3%	11.4%	9.0%	7.7%	7.5%	12.4%	10.0%
General Government (% of GDP)								
Revenues	34.6%	43.5%	48.8%	45.9%	40.5%	34.3%	25.6%	28.3%
Expenditures	41.9%	40.0%	40.2%	41.3%	40.8%	37.1%	30.3%	30.6%
Fiscal Balance	-7.4%	3.5%	8.7%	4.6%	-0.3%	-2.8%	-5.7%	-3.8%
Gross Debt	49.9%	39.8%	32.2%	29.6%	35.2%	38.0%	52.5%	49.3%
Foreign Investment and Reserves								
Foreign Direct Investment (US$ mn)	-2,199	4,568	5,116	9,639	13,164	-2,350	-2,150	-3,300
Net International Reserves (US$ mn)	12,622	17,327	26,321	30,828	31,154	27,276	23,500	24,150
Net International Reserves (in months of imports)	3.4	5.4	6.4	7.1	6.6	6.2	6.0	5.8
Exchange Rate								
Exchange Rate (period average, AOA/US$)	79.8	92.2	94.1	95.6	96.5	98.4	122.5	150.0
Exchange Rate (end of period, AOA/US$)	89.6	92.9	95.5	95.7	97.6	102.9	155.0	150.0

Source: Angolan authorities, World Bank, IMF 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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