



## The Angolan Economy

### Revised Budget Proposal for 2016

#### Research

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#### Economics

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#### **Economic growth estimate cut to 1.1%**

The Angolan government recently presented to Parliament a revised budget proposal for 2016. In this new document, the local authorities lowered their economic growth forecast for the country to 1.1% this year, a rate that is unseen in Angola in the post-civil war period, from a previous estimate of 3.3%. This revision came mostly from a more cautious outlook for the oil sector, with its growth forecast cut to just 0.8% from 4.8% in the initial budget (and 6.3% in 2015). On the other hand, growth in the non-oil sector was lowered to 1.2% after an already weak 1.5% expansion in 2015. This came after significant revisions in the growth projections for the manufacturing and retail sectors. Meanwhile, the government lifted its inflation forecast to 38.5%, the highest in over 12 years, as consumer prices remain under pressure after the reduction in fuel subsidies in January and the pass-through effects of the continued depreciation of the kwanza (already above 20% against the US\$ and EUR year-to-date). This has triggered the BNA to raise interest rates by 500bp so far this year to the current 16%, providing more headwinds to the country's economic expansion.

#### **Budget deficit forecast revised to 5.9% of GDP (from 5.5%)**

The revised budget assumptions incorporate an average oil price of US\$ 40.9 per barrel for this year, roughly 9% less than the US\$ 45 previously assumed. However, the forecast for total revenues was only lowered by 0.9% to AOA 3,485 billion (or 20.6% of GDP). This modest revision was due to lower tax revenues, namely from the oil sector, that more than offset significantly higher than initially expected non-tax receipts. It is worth highlighting that tax revenues from the oil sector are now expected to represent less than half of the total tax receipts for the first time in 2016. On the other hand, the government now expects to spend 4.4% more than it initially planned with total expenditures raised to AOA 4,485 billion (or 26.6% of GDP). The new budget incorporates a marked increase of 17.8% in capital spending from the initial budget, as the local authorities expect to use the proceeds from external financing already secured in 2016 to raise public investment levels in the remainder of the year in the hope of restarting economic activity in the country and improve real GDP growth prospects.

#### **Government debt (ex-debt to SOE) expected to reach 50% of GDP**

The government is still planning to finance the majority of its expenditures with fiscal receipts (50.1% of the total). However, it also expects to significantly raise the amount of borrowing both in domestic and international markets. This is expected to lift government debt levels (excluding debt to state-owned enterprises) to around 50% of GDP this year (of which nearly 2/3 denominated in foreign currency) from an estimated 46.6% in 2015. The local authorities believe the country continues to have access to sufficient funding, namely from international sources. This was mentioned as the main reason for not requiring funding from the IMF, although the country will continue its program of technical assistance with the Fund. However, it is clear that Angola's debt levels continue to rise at a very rapid pace and so careful monitoring is required. This is particularly relevant bearing in mind the growing debt levels denominated in foreign currency as well as the possibility of the kwanza depreciating further in the near-term, which could make it more challenging for the country to fulfil its debt commitments.

## MACROECONOMIC SCENARIO

Economic activity in Angola has slowed considerably in recent years. Real GDP advanced by only 4.8% in 2014 (from 6.8% in the previous year) and 3% in 2015. This is considerably slower than the 10.4% average recorded in the previous decade. The deceleration was particularly reflected 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 sectors like manufacturing, construction, retail and agriculture resulted in a modest economic expansion.

Angola continues to face a rather challenging economic environment in 2016. In its initial budget proposal for 2016 presented at the end of last year, the government predicted that real GDP would expand at a rate of 3.3% this year based on higher oil production and stronger growth in the non-oil sector. However, these assumptions have proved to be too optimistic. The local authorities have recently presented to the country's Parliament a revised budget proposal for 2016 whereby they include an amended macroeconomic scenario.

In this new macroeconomic scenario, the forecast for average daily oil production was cut by 5% to 1.79 million barrels per day (bpd) this year from a previous estimate of 1.89 million bpd and 1.72 million bpd in 2015. On the other hand, the government lowered its average oil price assumption to US\$ 40.9 per barrel (vs. US\$ 45 previously), as prices remain at multi-year lows. This is lower than the average oil price of US\$ 50 recorded last year and US\$ 96.9 in 2014.

Overall, growth in the oil sector is now only expected to reach 0.8% in 2016 (vs. 6.3% in 2015) and activity in the non-oil sector to advance 1.2% after an already depressed increase of 1.5% last year. These figures compare with previous forecasts of 4.8% for the oil sector and 2.7% for the non-oil sector in the initial budget proposal. The local authorities significantly cut their growth forecasts for the manufacturing and retail sectors this year, which more than offset the upward revisions in the growth estimates for agriculture and fishing. This means that the government now expects economic activity in the country to expand at only 1.1% in 2016, a rate that is unseen in Angola in the post-civil war period.

Moreover, inflation has picked up in recent months mostly as a result of the reduction in fuel subsidies earlier in January as well as the pass-through effects of the continued depreciation of the kwanza this year. We note that Angola continues to import a very large part of the food that it consumes while the ongoing investments in infrastructure mean that about 40% of its imports are related to machinery and metals. This lifted the inflation rate to 31.8% in June, a multi-year high and well above the government's initial target of 11% for the year.

Consumer prices are expected to remain under pressure in the foreseeable future as the local authorities are reportedly expected to announce two additional depreciation moves of the local currency before the end of the year. Specifically, the local press suggests that the kwanza could depreciate to 199 kwanzas to the dollar in Q3 and to 215.5 in Q4, which represents a further devaluation of 23% until year-end. The government now expects inflation to reach 38.5% in December, a level not seen in over 12 years.

*Angola's economic growth has slowed considerably in recent years*

*The country faces a tough economic environment in 2016 marked by continued low oil prices*

*The government has cut its forecast for oil production this year as well as for the average oil price*

*Real GDP is only expected to advance 1.1% in 2016, a rate not seen in the post-civil war period*

*Inflation has also picked up in recent months after the reduction in fuel subsidies and the pass-through effects of the continued depreciation of the kwanza*

*Prices are likely to remain under pressure, as the kwanza is expected to depreciate further in 2016*

MACRO FORECASTS					GROWTH FORECASTS				
	2014	2015	2016 (1)	2016 (2)		2014	2015	2016 (1)	2016 (2)
Inflation	7.5%	14.3%	11.0%	38.5%	<b>Total</b>	<b>4.8%</b>	<b>4.0%</b>	<b>3.3%</b>	<b>1.1%</b>
Annual oil production (mln barrels)	610.2	628.3	689.4	654.6	Agriculture	11.9%	2.5%	4.6%	6.7%
Daily oil production (million bpd)	1.67	1.72	1.89	1.79	Fishing	19.1%	2.0%	0.2%	1.7%
Average oil price (US\$ per barrel)	96.9	50.0	45.0	40.9	Diamonds and other	1.0%	3.2%	1.0%	-0.6%
Gross domestic product:					Manufacturing	8.0%	3.5%	3.1%	-3.9%
Nominal value (AOA billion)	12,462	12,537	14,218	16,880	Construction	8.0%	3.5%	3.1%	3.2%
Oil sector	4,304	3,098	3,302	3,659	Energy	17.3%	12.0%	20.0%	19.9%
% of total	34.5%	24.7%	23.2%	21.7%	Commerce	8.0%	2.2%	2.4%	0.0%
Non-oil sector	8,158	9,439	10,916	13,220	Other	6.0%	1.1%	0.0%	0.0%
% of total	65.5%	75.3%	76.8%	78.3%					
Real GDP growth	4.8%	3.0%	3.3%	1.1%					
Oil sector	-2.6%	6.3%	4.8%	0.8%					
Non-oil sector	8.2%	1.5%	2.7%	1.2%					
Exchange rate (US\$/AOA)	98.3	120.1	143.8	n.a.					

(1) Initial budget; (2) Revised budget.

Source: Angolan authorities.

(1) Initial budget; (2) Revised budget.

Source: Angolan authorities.

## EXECUTION OF THE 2016 BUDGET

The Angolan authorities recently disclosed the figures for the execution of the 2016 budget in the first half of the year. As expected, the budget execution has been largely impacted by the evolution of oil prices during this period. Indeed, the average oil price stood at only US\$ 31.5 per barrel in Q1 and US\$ 43.6 in Q2. This means that the average price for the first half of the year stood at just US\$ 37.5, which is well below the target of US\$ 45 for the year foreseen in the government's initial budget. Oil prices reached the lowest level of the last decade in mid-January when they stood below US\$ 28 per barrel.

*The budget execution for 2016 has been hit by the lower than expected oil prices in the first half of the year*

Moreover, oil exports reached 158.2 million barrels in Q1 and 151.3 million in Q2. This brings the total amount of oil exports to 309 million barrels in the first half of 2016, which, according to the local authorities, stands somewhat in line with the projected figures. The government also stated that besides the impact from lower prices and production, proceeds from the oil sector were also hit by higher cost recovery from oil companies.

*Apart from the low costs, proceeds from the oil sector were also impacted by higher cost recovery from oil companies*

Overall, the budget execution report showed that total revenues for the first half of 2016 stood at AOA 1,358 billion, representing 38.6% of the annual target set in the initial budget. Non-tax revenues stood at nearly 48% of the yearly target. However, revenues from the oil sector were well below expectations, as they accounted for just over a third of the forecast for the entire year, as shown in the table below.

*Revenues for the first half of 2016 stood at only 38.6% of their annual target*

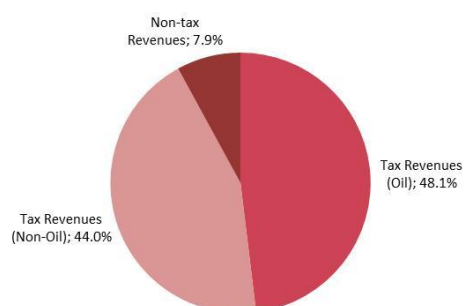
REVENUES						1H 2016 (Executed)	
AOA BILLION	2012	2013	2014	2015	2016 (1)	Amount	Rate
Tax Revenues	4,826	4,602	4,098	3,056	3,235	1,225	37.9%
Oil Revenues	4,103	3,630	2,970	1,898	1,690	579	34.3%
Concessionary Rights	2,800	2,446	1,994	1,306	1,163	362	31.1%
Non-oil Revenues	723	972	1,128	1,158	1,545	646	41.8%
Non-tax Revenues	228	247	305	326	279	134	47.8%
<b>Total Revenues</b>	<b>5,054</b>	<b>4,849</b>	<b>4,403</b>	<b>3,381</b>	<b>3,515</b>	<b>1,358</b>	<b>38.6%</b>

(1) Initial budget. Sources: Angolan authorities and Eaglestone Securities.

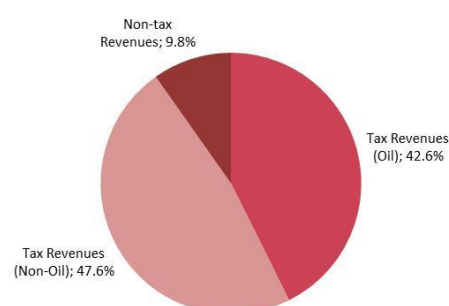
A breakdown of revenues shows that tax revenues from the oil sector stood at only 42.6% of the total in the first half of the year. This was well below the 48.1% expected for the year. On the other hand, non-oil related tax revenues accounted for a higher than is foreseen 47.6% in the same period as did non-tax revenues (9.8% vs. 7.9% expected).

*The shares of non-oil tax revenues and non-tax revenues are higher than expected so far this year*

## BREAKDOWN OF TOTAL REVENUES (INITIAL BUDGET 2016)      BREAKDOWN OF TOTAL REVENUES (EXECUTION 1H 2016)



Sources: Angolan authorities and Eaglestone Securities.



Sources: Angolan authorities and Eaglestone Securities.

Meanwhile, the execution of the government's spending plan was also hugely impacted by the persistently low oil prices this year as it looks like the local authorities have delayed a large part of their planned expenditures for the second half of the year. The budget execution report showed that total expenditures reached only AOA 1,240 billion so far this year, representing an execution of just 28.9% of the annual target. This not only reflects a low execution level of current expenditures, but more importantly it shows that public investment has been almost non-existent so far this year as the government only executed 6.1% of its yearly target.

*Capital expenditure has been almost non-existent so far in 2016*

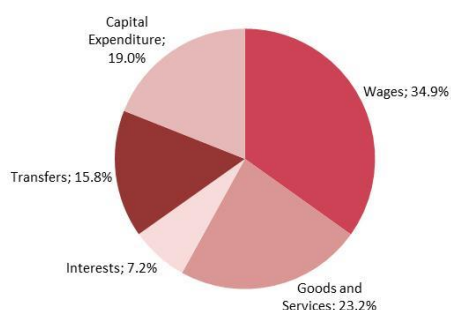
EXPENDITURES						1H 2016 (Executed)	
AOA BILLION	2012	2013	2014	2015	2016 (1)	Amount	Rate
Current Expenditures	3,184	3,437	3,666	3,045	3,480	1,190	34.2%
Wages	1,031	1,155	1,319	1,390	1,497	651	43.5%
Goods and Services	1,297	1,228	1,249	779	995	171	17.2%
Interests	105	99	147	249	307	178	57.7%
Transfers	752	955	950	627	680	190	28.0%
Subsidies	548	710	668	279	370	39	10.6%
Capital Expenditure	1,145	1,379	1,555	813	816	50	6.1%
Public Investment	1,145	1,376	1,547	796	816	50	6.1%
<b>Total Expenditures</b>	<b>4,329</b>	<b>4,816</b>	<b>5,221</b>	<b>3,858</b>	<b>4,296</b>	<b>1,240</b>	<b>28.9%</b>

(1) Initial budget. Sources: Angolan authorities and Eaglestone Securities.

A closer look at the breakdown of expenditures shows that 96% of the government's spending in the first half of the year was allocated to pay current expenditures, including salaries, transfers, interests and goods and services. On the other hand, only 4% was allocated to public investment. This is materially different that the figures projected in the initial yearly budget.

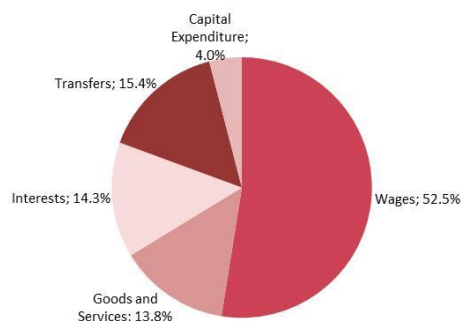
*Most of the government's spending was allocated to pay current expenditures*

BREAKDOWN OF EXPENDITURES (INITIAL BUDGET 2016)



Sources: Angolan authorities and Eaglestone Securities.

BREAKDOWN OF EXPENDITURES (EXECUTION 1H 2016)



Sources: Angolan authorities and Eaglestone Securities.

All in all, the executed budget figures of the last few years show a gradual downward trend in terms of both total revenues and total expenditures as a percentage of GDP. We see that this is no different if we annualize the numbers for the first half of 2016. However, we highlight three items from the table below. First, the contribution of oil revenues has significantly decreased since 2014, accounting for only 8.1% (annualized) of GDP so far this year. Second, current expenditures, namely wages, continue to represent the lion's share of government spending. And third, public investment levels have also declined markedly in recent years and, as noted above, are almost non-existent so far in 2016.

*The share of revenues and expenditures as a percent of GDP has declined in recent years*

GOVERNMENT ACCOUNTS	% of GDP (2)					
AOA BILLION	2012	2013	2014	2015	2016 (1)	1H 2016
<b>Revenues</b>	<b>46.5%</b>	<b>40.2%</b>	<b>35.3%</b>	<b>27.4%</b>	<b>24.7%</b>	<b>19.1%</b>
Tax Revenues	44.4%	38.2%	32.9%	24.8%	22.8%	17.2%
Oil Revenues	37.7%	30.1%	23.8%	15.4%	11.9%	8.1%
Concessionary Rights	25.7%	20.3%	16.0%	10.6%	8.2%	5.1%
Non-oil Revenues	6.6%	8.1%	9.1%	9.4%	10.9%	9.1%
Non-tax Revenues	2.1%	2.0%	2.4%	2.6%	2.0%	1.9%
<b>Expenditures</b>	<b>39.8%</b>	<b>39.9%</b>	<b>41.9%</b>	<b>31.3%</b>	<b>30.2%</b>	<b>17.4%</b>
Current Expenditures	29.3%	28.5%	29.4%	24.7%	24.5%	16.7%
Wages	9.5%	9.6%	10.6%	11.3%	10.5%	9.2%
Goods and Services	11.9%	10.2%	10.0%	6.3%	7.0%	2.4%
Interests	1.0%	0.8%	1.2%	2.0%	2.2%	2.5%
Transfers	6.9%	7.9%	7.6%	5.1%	4.8%	2.7%
Subsidies	5.0%	5.9%	5.4%	2.3%	2.6%	0.6%
Capital Expenditure	10.5%	11.4%	12.5%	6.6%	5.7%	0.7%
Public Investment	10.5%	11.4%	12.4%	6.5%	5.7%	0.7%

(1) Initial budget; (2) 1H 2016 is annualized. Sources: Angolan authorities and Eaglestone Securities.



## REVISED BUDGET FOR 2016

We recall that the revised budget assumptions incorporate an average oil price of US\$ 40.9 per barrel for this year, roughly 9% less than the US\$ 45 figure previously assumed. However, the forecast for total revenues was only lowered by 0.9% to AOA 3,485 billion from the initial estimate of AOA 3,515 billion. This modest revision was due to lower expected tax revenues, namely from the oil sector (-9.1%), as this more than offset significantly higher than initially expected non-tax receipts (+40.5%). It is worth highlighting that the contribution from the oil sector to government receipts has declined in recent years and is now expected to reach less than half of tax revenues (vs. 52.2% in the initial budget and 62.1% in 2015). Revenues are now forecasted to represent 20.6% of GDP this year. This is significantly lower than both the projection of the initial 2016 budget and the recorded figure in 2015.

On the other hand, the government now expects to spend 4.4% more than initially planned, as total expenditures were raised to AOA 4,485 billion from a previous AOA 4,296 billion. They are now expected to represent 26.6% of GDP, which is also lower than the figures projected in the initial budget and in 2015. This came after a slight increase in the current expenditures forecast, namely in public sector wages (+4.4%) as well as interest payments (+43.7%), which was larger than the decline in spending on goods and services (-14.8%). More importantly, the revised budget incorporates a marked increase of 17.8% in capital spending when compared with the initial budget figure. This new projection is also 18.2% higher than the recorded figure in 2015 and is expected to represent 5.7% of GDP (vs. 6.6% in 2015).

The local authorities stated that they anticipate using the proceeds from external financing already secured to increase public investment levels in the remainder of the year in the hope of restarting economic activity in the country and improve real GDP growth. On this front, we note that Angola has raised nearly US\$ 12 billion in international markets since the successful issue of its US\$ 1.5 billion Eurobond in November 2015. The external funding facilities include funding from (1) the China Development Bank (US\$ 5 billion); (2) the Industrial and Commercial Bank of China, China Development Bank and Exim Bank (US\$ 1.98 billion); (3) Spain's CaixaBank (US\$ 450 million); (4) various international export credit agencies already concluded or to be concluded before year-end (US\$ 1.18 billion); and (5) framework agreement and budget support concluded and to be concluded before year-end (US\$ 3.3 billion). The government has also issued securities in the domestic market amounting to AOA 512.6 billion so far in 2016.

Overall, this means that the budget deficit forecast for this year was revised upwards to 5.9% of GDP from an initial forecast of 5.5%. It is also higher than the 3.9% deficit recorded in 2015.

*The government lowered its revenue forecast for this year by a modest 0.9% from its initial estimate, despite lowering its oil price assumption by 9%*

*The local authorities hope that an increase in public investment levels will help restart economic activity to more robust growth levels*

*Angola has raised nearly US\$ 12 billion in international markets since its Eurobond issue in November 2015*

*The budget deficit forecast was revised upwards to 5.9% of GDP*

GOVERNMENT ACCOUNTS				Change		
AOA BILLION	2015	2016 (1)	2016 (2)	(1) / 2015	(2) / 2015	(2) / (1)
<b>Revenues</b>	<b>3,381</b>	<b>3,515</b>	<b>3,485</b>	<b>3.9%</b>	<b>3.1%</b>	<b>-0.9%</b>
% of GDP	27.4%	24.7%	20.6%	-2.7%	-6.8%	-4.1%
Tax Revenues	3,056	3,235	3,092	5.9%	1.2%	-4.4%
Oil Revenues	1,898	1,690	1,536	-11.0%	-19.1%	-9.1%
% of Total Tax Revenues	62.1%	52.2%	49.7%	-9.9%	-12.4%	-2.6%
Concessionary Rights	1,306	1,163	968	-10.9%	-25.9%	-16.8%
Non-oil Revenues	1,158	1,545	1,557	33.5%	34.4%	0.7%
Non-tax Revenues	326	279	393	-14.2%	20.5%	40.5%
<b>Expenditures</b>	<b>3,858</b>	<b>4,296</b>	<b>4,485</b>	<b>11.3%</b>	<b>16.2%</b>	<b>4.4%</b>
% of GDP	31.3%	30.2%	26.6%	-1.1%	-4.7%	-3.6%
Current Expenditures	3,045	3,480	3,524	14.3%	15.7%	1.2%
Wages	1,390	1,497	1,563	7.7%	12.4%	4.4%
Goods and Services	779	995	848	27.8%	8.8%	-14.8%
Interests	249	307	442	23.7%	77.7%	43.7%
Transfers	627	680	672	8.5%	7.1%	-1.3%
Subsidies	279	370	362	32.9%	29.9%	-2.2%
Capital Expenditure	813	816	961	0.3%	18.2%	17.8%
Public Investment	796	816	961	2.4%	20.7%	17.8%
<b>Primary Fiscal Balance</b>	<b>337</b>	<b>34</b>	<b>-39</b>	<b>-89.8%</b>	<b>-111.6%</b>	<b>-213.1%</b>
% of GDP	2.7%	0.2%	-0.2%	-2.5%	-3.0%	-0.5%
<b>Overall Fiscal Balance</b>	<b>-477</b>	<b>-781</b>	<b>-1,000</b>	<b>63.9%</b>	<b>109.8%</b>	<b>28.0%</b>
% of GDP	-3.9%	-5.5%	-5.9%	-1.6%	-2.1%	-0.4%

(1) Initial budget; (2) Revised budget. Sources: Angolan authorities and Eaglestone Securities.

The figures in the table below about the performance of Angola's government accounts lead to several noteworthy conclusions. First, the contribution of the oil sector to fiscal accounts has declined significantly in recent years, representing an expected 44.1% in this year's revised budget. This is well below the 81.2% recorded in 2012, for instance. Second, non-oil related taxes have increased markedly in the same period and could represent more than oil proceeds for the first time in 2016. This has been largely the result of 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 apart from the oil sector. Third, the Angolan authorities continue to allocate the largest share of their public expenditures to pay the salaries of public sector workers. These represent more than a third of total expenditures in 2015-16. And fourth, capital expenditure levels have seen a strong decline both in absolute and relative terms in 2015 and could see the same this year. These are expected to represent just over one fifth of total expenditures and represent significantly less than public sector wages.

*The contribution of the oil sector to fiscal accounts has dropped significantly in recent years whereas taxes from the non-oil sector could represent more than oil proceeds for the first time in 2016*

GOVERNMENT ACCOUNTS	% of Total					
	2012	2013	2014	2015	2016 (1)	2016 (2)
<b>Revenues</b>						
Tax Revenues (Oil)	81.2%	74.9%	67.5%	56.1%	48.1%	44.1%
Tax Revenues (Non-Oil)	14.3%	20.1%	25.6%	34.2%	44.0%	44.7%
Non-tax Revenues	4.5%	5.1%	6.9%	9.6%	7.9%	11.3%
<b>Total Revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Expenditures</b>						
Wages	23.8%	24.0%	25.3%	36.0%	34.9%	34.8%
Goods and Services	30.0%	25.5%	23.9%	20.2%	23.2%	18.9%
Interests	2.4%	2.1%	2.8%	6.4%	7.2%	9.8%
Transfers	17.4%	19.8%	18.2%	16.3%	15.8%	15.0%
Capital Expenditure	26.4%	28.6%	29.8%	21.1%	19.0%	21.4%
<b>Total Expenditures</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Initial budget; (2) Revised budget. Sources: Angolan authorities and Eaglestone Securities.

Meanwhile, in terms of expenditures by sector, the government's revised budget incorporates a total amount of AOA 6,959 billion this year. This is an increase of 8.3% relatively to the initial budget and 27.6% more than in 2015. Planned spending on the social sector was cut 2.9% from the initial budget, including spending on education, health and social protection. Spending on housing was raised 30% and stands nearly 47% higher than in 2015. Moreover, the local authorities plan to spend about 35% more on the economic sector relatively to the initial budget while expenditures on public debt operations are expected to be 20% higher than previously anticipated. These are also significantly higher than the 2015 levels. On the other hand, spending on defense, security and social order remained unchanged and spending on general public services is expected to be slightly lower than before, as depicted in the table below.

*Planned expenditures by sector were raised by 8.3% when compared with the initial budget*

EXPENDITURES BY SECTOR AOA BILLION				Change		
	2015	2016 (1)	2016 (2)	(1) / 2015	(2) / 2015	(2) / (1)
Social Sector	1,773	1,983	1,926	11.9%	8.6%	-2.9%
Education	468	491	456	4.9%	-2.6%	-7.2%
Health	270	341	303	26.3%	12.3%	-11.1%
Social Protection	708	812	759	14.8%	7.2%	-6.6%
Housing	255	288	374	12.8%	46.7%	30.1%
Environmental Protection	27	16	9	-39.6%	-65.6%	-43.1%
Other	46	36	25	-22.3%	-45.8%	-30.3%
Economic Sector	584	631	854	7.9%	46.2%	35.5%
Defense, Security and Social Order	847	927	930	9.4%	9.7%	0.3%
General Public Services and Other	835	1,053	1,036	26.1%	24.0%	-1.7%
Public Debt Operations	1,414	1,835	2,213	29.7%	56.5%	20.7%
<b>Total Expenditures</b>	<b>5,454</b>	<b>6,428</b>	<b>6,959</b>	<b>17.9%</b>	<b>27.6%</b>	<b>8.3%</b>

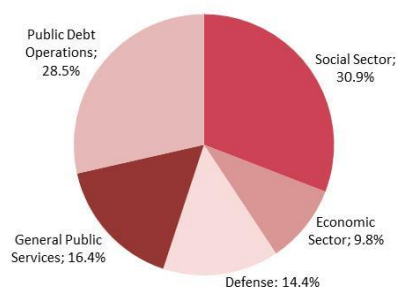
(1) Initial budget; (2) Revised budget. Sources: Angolan authorities and Eaglestone Securities.

A breakdown of expenditures by sector shows that planned spending on public debt operations has now surprisingly surpassed social sector spending. We note that the amount allocated to the education and health sectors was lowered to 6.6% and 4.4% of the total, respectively, in the revised budget. This compares with 7.6% and 5.3%, respectively, in the initial budget. It also compares with 8.6% and 4.9%, respectively, in 2015. Spending for these two sectors combined

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

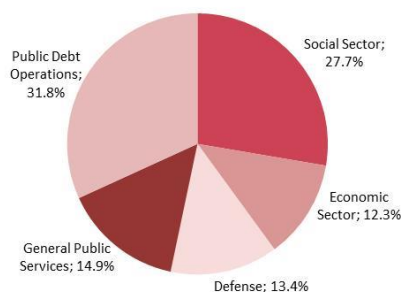
remains yet again below the expenditures planned for defense, security and social order (13.4%). Moreover, it is worth noting that spending on the economic sector is expected to reach 12.3% of the total, higher than the 9.8% in the initial budget and 10.7% in 2015.

EXPENDITURES BY SECTOR (INITIAL BUDGET 2016)



Sources: Angolan authorities and Eaglestone Securities.

EXPENDITURES BY SECTOR (REVISED BUDGET 2016)



Sources: Angolan authorities and Eaglestone Securities.

The Angolan authorities are still planning to finance the majority of these expenditures with fiscal receipts (50.1% of the total). However, they expect to significantly increase the amount of borrowing both in the domestic and international markets relatively to last year. Domestic financing was revised upwards by nearly 50% from the initial budget and currently stands at 30% of total financing. In terms of borrowing in international markets, the expected amount was lowered by 8.8% from the initial budget and stands at 20% of total financing resources. On the other hand, the largest share of the government's resources is expected to be allocated to debt amortization (28.8% of the total) and also to pay public sector wages, as detailed below.

*The government plans to significantly increase the amount of borrowing in both the domestic and international markets this year*

FINANCING			Change	% of Total	
AOA BILLION	2016 (1)	2016 (2)	(2) / (1)	2016 (1)	2016 (2)
<b>Financing of Resources</b>					
Fiscal Revenues	3,514	3,485	-0.8%	54.7%	50.1%
Taxes	3,235	3,092	-4.4%	50.3%	44.4%
Oil Sector	1,690	1,535	-9.1%	26.3%	22.1%
Non-oil Sector	1,545	1,557	0.7%	24.0%	22.4%
Non-taxes	279	393	40.5%	4.3%	5.6%
Asset Sales	2	2	-6.2%	0.0%	0.0%
Financing	2,913	3,474	19.2%	45.3%	49.9%
Domestic	1,395	2,089	49.8%	21.7%	30.0%
International	1,518	1,384	-8.8%	23.6%	19.9%
<b>Total</b>	<b>6,429</b>	<b>6,960</b>	<b>8.3%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Allocation of Resources</b>					
Wages	1,497	1,563	4.4%	23.3%	22.5%
Goods and Services	995	848	-14.8%	15.5%	12.2%
Interests	307	442	43.7%	4.8%	6.3%
Transfers	680	672	-1.3%	10.6%	9.6%
Acquisition of Non-financial Assets	816	961	17.8%	12.7%	13.8%
Other Financial Operations	390	468	20.1%	6.1%	6.7%
Debt Amortization	1,744	2,007	15.1%	27.1%	28.8%
Domestic	1,284	1,433	11.6%	20.0%	20.6%
International	459	574	25.0%	7.1%	8.2%
<b>Total</b>	<b>6,429</b>	<b>6,960</b>	<b>8.3%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Initial budget; (2) Revised budget. Sources: Angolan authorities and Eaglestone Securities.

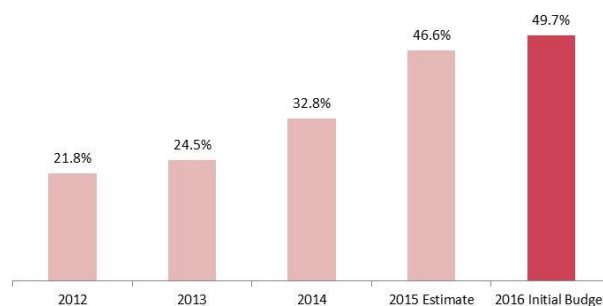
The government did not provide any forecasts for public debt levels for the remainder of the year in its revised budget proposal. However, we recall a recently disclosed document whereby the local authorities stated that government debt (excluding debt at state-owned enterprises) amounted to US\$ 47.9 billion at the end of June 2016, of which US\$ 25.5 billion was external debt (or 53% of the total). This means that government debt is expected to increase to about 50% of GDP this year from 46.6% in 2015 and 32.8% in 2014. Moreover, external debt payments foreseen in the next 12 months amount to US\$ 4.4 billion, which represents around 22% of the total government revenues budgeted for 2016.

*Government debt is expected to reach 50% of GDP this year*

## ANGOLAN PUBLIC DEBT (% OF GDP)

<b>PUBLIC DEBT</b>			
<b>US\$ BILLION</b>	<b>External Debt</b>	<b>Domestic Debt</b>	<b>Total Public</b>
2012	12.4	12.4	<b>24.8</b>
2013	15.7	14.9	<b>30.6</b>
2014	20.2	21.4	<b>41.6</b>
2015 (1)	22.2	26.5	<b>48.6</b>
2016 (2)	30.8	18.4	<b>49.2</b>

(1) Estimate; (2) Initial Budget. Source: Angolan authorities.



Sources: Angolan authorities and Eaglestone Securities.

In sum, the Angolan government expects to continue to rely on fiscal income to finance public spending. However, it also believes that the country continues to have access to sufficient funding, namely from international sources. The government stated that this was the main reason for not requiring funding from the IMF, although the country will continue its program of technical assistance with the Fund. However, it is clear that Angola's debt level continues to rise at a very rapid pace and so careful monitoring is required. This is particularly relevant bearing in mind the growing debt levels denominated in foreign currency as well as the possibility of the kwanza depreciating further in the near-term, which could make it more challenging for the country to fulfill its debt commitments.

*Angola's debt levels continue to rise at a rapid pace and so careful monitoring is required*



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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.

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