The Angolan Economy

How much could oil prices impact 2016 accounts?

Research
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Economics
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FACT: International oil prices have fallen markedly since their peak above US$ 114 per barrel in June 2014. According to Bloomberg data, the price of Brent crude oil averaged US$ 58 in 2015, but stood below US$ 38 at year-end. This represents a drop of nearly 49% and 67%, respectively, from the aforementioned high recorded nearly 18 months prior. Meanwhile, Brent prices remain depressed in the first weeks of 2016, reaching a multi-year low of US$ 27.8 on January 20th. Overall, oil prices have fallen a further 18% year to date and have averaged US$ 31.7 thus far. This is 45% lower than the average price in 2015. Consensus estimates suggest that oil prices are unlikely to see a rapid recovery in the short-term. This is chiefly due to the oversupply that still exists in the market and persistently high oil inventories. Again, consensus indicates that oil prices could eventually see a rebound to a more balanced equilibrium level above US$ 50 only later in 2016. However, this will require a more active stance from the major oil producers, namely in terms of production cuts.

OPINION: We recall that the Angolan government's 2016 budget incorporated an average oil price assumption of US$ 45 for this year. Although this is higher than the US$ 40 expected in the revised 2015 budget (the initial budget included a forecast of US$ 81), we first believed this to be a conservative forecast by the local authorities. It turns out that, based on the latest oil price performance, the year ahead should prove to be quite challenging for Angola. Moreover, we think the evolution of oil prices will dictate the local authorities' budget execution in 2016. We note that the country remains highly dependent on the oil sector for its fiscal revenues (estimated to account for 57% of the total in 2015 vs. 72% in the previous year) and as a source of international reserves (oil represents nearly 97% of total exports).

The uncertainty surrounding the outlook on oil prices led us to carry out a sensitivity analysis to see the potential impact that different oil price scenarios and implied tax rates for the oil sector would have on the government's total revenues in 2016. We assume that all other things would remain equal, namely the expenditures envisaged in the 2016 budget. We have therefore collected data on the performance of the oil sector over the last six years (2011-15) and present it in Table 1. Our sensitivity analysis considers an average oil price range of US$ 30-55, which we consider reasonable bearing in mind the short-term outlook for oil prices and an implied tax rate ranging from 30% to 40% based on the latest data collected. We also assume in our calculations the current US$/AOA exchange rate of 155 this year, but admit that another devaluation of the kwanza could happen before year-end. The results of our calculations are summarized in Tables 2 and 3 and detailed in Table 4 below.

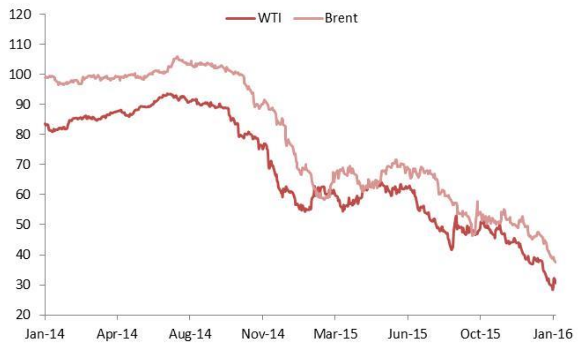
According to our calculations, an average oil price of US$ 30 this year would have a negative impact of 16% on the government's budgeted revenue forecast (assuming an implied tax rate of 35.1% expected in the 2016 budget). In other words, it means that revenues would fall US$ 3,634 million short of expectations. In our worst case scenario (average price of US$ 30 and implied tax rate of 30%) revenues would get a hit of nearly US$ 4.7 billion while the budget deficit would reach 10.6% of GDP (vs. 5.5% expected in the 2016 budget). If oil prices were to recover to an average of US$ 50, for instance, then revenues would improve US$ 1,211 million from this year's budget and the deficit would stand at 4.2% of GDP.

OUTLOOK: Angola faces a challenging year ahead and the uncertainty around the outlook on oil prices presents considerable threats to the government's budget execution and its economic growth perspectives. We have lowered our real GDP growth estimates for 2016 to 3.2% (vs. 3.5% previously), as we expect non-oil growth to remain weak. This figure is marginally lower than the authorities' target of 3.3%. We then expect a modest improvement to 3.6% in 2017.

It is worth noting that the government recently accelerated its fuel subsidy reform, which is expected to bring important savings to the public coffers. Three increases in domestic fuel prices since September 2014 coupled with the latest introduction of a free pricing system led to the elimination of subsidies on most fuels this year. According to the 2016 budget proposal, the government forecasts subsidies of AOA 447 billion (or 3.1% of GDP) for the energy sector. This is US$ 2.8 billion at the current exchange rate. The authorities should also aim to improve the quality of public spending, namely by reducing current expenditure levels, which remain excessively high at 81% of total public spending in 2016 (or 24.5% of GDP).

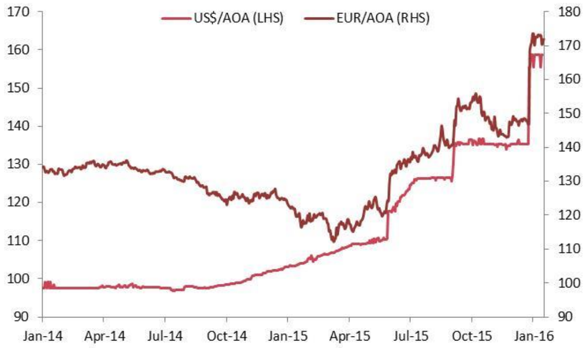
Overall, we expect the government to remain focused on its social and infrastructure programs in the near term, particularly as we move into an election year in 2017, but some constraints are likely to exist due to the low oil price environment. This means that the local authorities could also postpone less crucial investment projects. Efforts to diversify the economy and broaden the non-oil tax base remain key challenges ahead. We do not see the announcement of a revised 2016 budget as imminent, but this scenario should not be ruled out if oil prices remain at these levels for too much longer.

OIL PRICE PERFORMANCE (US$ PER BARREL)



Source: Bloomberg.

KWANZA EXCHANGE RATE



Source: Bloomberg.

TABLE 1 - OIL / FISCAL ACCOUNTS	2010 Executed	2011 Executed	2012 Executed	2013 Executed	2014 Prelim.	2015 Estimate	2015 Rev. Budget	2016 Budget
Oil Sector								
Annual oil production (million) (1)	641.5	605.9	631.8	626.3	604.4	669.1	669.1	689.4
Average daily oil production (million bpd)	1.76	1.66	1.73	1.72	1.66	1.83	1.83	1.89
Average oil price (US$ per barrel) (2)	77.9	110.1	111.6	107.7	96.9	53.0	40.0	45.0
Oil revenues (US$ million) = (1) x (2)	**49,969**	**66,710**	**70,509**	**67,453**	**58,566**	**35,462**	**26,764**	**31,023**
Exchange rate (US$/AOA)	91.1	94.0	95.4	96.6	98.3	126.0	112.5	155.0
Oil revenues (AOA billion) (3)	**4,552**	**6,271**	**6,727**	**6,516**	**5,757**	**4,468**	**3,011**	**4,809**
Government Accounts								
Oil related tax revenues (AOA billion) (4)	**2,500**	**3,817**	**4,103**	**3,630**	**2,970**	**1,616**	**1,039**	**1,690**
Implied tax rate (oil-related) = (4) / (3)	*54.9%*	*60.9%*	*61.0%*	*55.7%*	*51.6%*	*36.2%*	*34.5%*	*35.1%*

Source: Angolan authorities and Eaglestone Securities.

TABLE 2: Change in Revenues vs Budget 2016

		Average Oil Price (US$)					
		30.0	**35.0**	**40.0**	**45.0**	**50.0**	**55.0**
Implied Tax Rate	**30.0%**	-20.7%	-16.2%	-11.6%	-7.0%	-2.5%	2.1%
	32.5%	-18.4%	-13.5%	-8.6%	-3.6%	1.3%	6.3%
	35.1%	-16.0%	-10.7%	-5.3%	0.0%	5.3%	10.7%
	37.5%	-13.9%	-8.2%	-2.5%	3.2%	8.9%	14.6%
	40.0%	-11.6%	-5.5%	0.6%	6.7%	12.7%	18.8%

Source: Eaglestone Securities.

TABLE 3: Change in Revenues vs Budget 2016

		Average Oil Price (US$)					
US$ million		**30.0**	**35.0**	**40.0**	**45.0**	**50.0**	**55.0**
Implied Tax Rate	**30.0%**	-4,697	-3,663	-2,628	-1,594	-560	474
	32.5%	-4,180	-3,059	-1,939	-819	301	1,422
	35.1%	-3,634	-2,423	-1,211	0	1,211	2,423
	37.5%	-3,146	-1,853	-560	732	2,025	3,318
	40.0%	-2,628	-1,250	129	1,508	2,887	4,266

Source: Eaglestone Securities.

TABLE 4 - GOVERNMENT ACCOUNTS		SENSITIVITY ANALYSIS TO OIL PRICE (US$/BARREL)					
AOA BILLION	**2016 Budget**	**30.0**	**35.0**	**40.0**	**45.0**	**50.0**	**55.0**
Scenario 1 (Oil Tax Rate of 30.0%):							
Revenues	**3,515**	**2,787**	**2,947**	**3,107**	**3,267**	**3,428**	**3,588**
% of GDP	*24.7%*	*19.6%*	*20.7%*	*21.9%*	*23.0%*	*24.1%*	*25.2%*
Tax Revenues	3,235	2,507	2,667	2,828	2,988	3,148	3,309
Oil Revenues	1,690	962	1,122	1,282	1,443	1,603	1,763
% of Total Tax Revenues	*52.2%*	*38.4%*	*42.1%*	*45.3%*	*48.3%*	*50.9%*	*53.3%*
Change in Revenues vs. 2016 Budget		***-20.7%***	***-16.2%***	***-11.6%***	***-7.0%***	***-2.5%***	***2.1%***
Scenario 2 (Oil Tax Rate of 32.5%):							
Revenues	**3,515**	**2,867**	**3,040**	**3,214**	**3,388**	**3,561**	**3,735**
% of GDP	*24.7%*	*20.2%*	*21.4%*	*22.6%*	*23.8%*	*25.0%*	*26.3%*
Tax Revenues	3,235	2,587	2,761	2,935	3,108	3,282	3,455
Oil Revenues	1,690	1,042	1,215	1,389	1,563	1,736	1,910
% of Total Tax Revenues	*52.2%*	*40.3%*	*44.0%*	*47.3%*	*50.3%*	*52.9%*	*55.3%*
Change in Revenues vs. 2016 Budget		***-18.4%***	***-13.5%***	***-8.6%***	***-3.6%***	***1.3%***	***6.3%***
Scenario 3 (Oil Tax Rate of 35.1%):							
Revenues	**3,515**	**2,951**	**3,139**	**3,327**	**3,515**	**3,702**	**3,890**
% of GDP	*24.7%*	*20.8%*	*22.1%*	*23.4%*	*24.7%*	*26.0%*	*27.4%*
Tax Revenues	3,235	2,672	2,860	3,047	3,235	3,423	3,611
Oil Revenues	1,690	1,126	1,314	1,502	1,690	1,877	2,065
% of Total Tax Revenues	*52.2%*	*42.2%*	*46.0%*	*49.3%*	*52.2%*	*54.9%*	*57.2%*
Change in Revenues vs. 2016 Budget		***-16.0%***	***-10.7%***	***-5.3%***	***0.0%***	***5.3%***	***10.7%***
Scenario 4 (Oil Tax Rate of 37.5%):							
Revenues	**3,515**	**3,027**	**3,227**	**3,428**	**3,628**	**3,828**	**4,029**
% of GDP	*24.7%*	*21.3%*	*22.7%*	*24.1%*	*25.5%*	*26.9%*	*28.3%*
Tax Revenues	3,235	2,748	2,948	3,148	3,349	3,549	3,749
Oil Revenues	1,690	1,202	1,402	1,603	1,803	2,004	2,204
% of Total Tax Revenues	*52.2%*	*43.8%*	*47.6%*	*50.9%*	*53.8%*	*56.5%*	*58.8%*
Change in Revenues vs. 2016 Budget		***-13.9%***	***-8.2%***	***-2.5%***	***3.2%***	***8.9%***	***14.6%***
Scenario 5 (Oil Tax Rate of 40.0%):							
Revenues	**3,515**	**3,107**	**3,321**	**3,535**	**3,748**	**3,962**	**4,176**
% of GDP	*24.7%*	*21.9%*	*23.4%*	*24.9%*	*26.4%*	*27.9%*	*29.4%*
Tax Revenues	3,235	2,828	3,041	3,255	3,469	3,683	3,896
Oil Revenues	1,690	1,282	1,496	1,710	1,923	2,137	2,351
% of Total Tax Revenues	*52.2%*	*45.3%*	*49.2%*	*52.5%*	*55.4%*	*58.0%*	*60.3%*
Change in Revenues vs. 2016 Budget		***-11.6%***	***-5.5%***	***0.6%***	***6.7%***	***12.7%***	***18.8%***
Non-oil Revenues	1,545	1,545	1,545	1,545	1,545	1,545	1,545
Non-tax Revenues	279	279	279	279	279	279	279
Expenditures	**4,296**	**4,296**	**4,296**	**4,296**	**4,296**	**4,296**	**4,296**
% of GDP	*30.2%*	*30.2%*	*30.2%*	*30.2%*	*30.2%*	*30.2%*	*30.2%*
Current Expenditures	3,480	3,480	3,480	3,480	3,480	3,480	3,480
Scenario 1 (Oil Tax Rate of 30.0%):							
Primary Fiscal Balance	**34**	**-694**	**-533**	**-373**	**-213**	**-52**	**108**
% of GDP	*0.2%*	*-4.9%*	*-3.8%*	*-2.6%*	*-1.5%*	*-0.4%*	*0.8%*
Overall Fiscal Balance	**-781**	**-1,509**	**-1,349**	**-1,189**	**-1,028**	**-868**	**-708**
% of GDP	*-5.5%*	*-10.6%*	*-9.5%*	*-8.4%*	*-7.2%*	*-6.1%*	*-5.0%*
Scenario 2 (Oil Tax Rate of 32.5%):							
Primary Fiscal Balance	**34**	**-613**	**-440**	**-266**	**-93**	**81**	**255**
% of GDP	*0.2%*	*-4.3%*	*-3.1%*	*-1.9%*	*-0.7%*	*0.6%*	*1.8%*
Overall Fiscal Balance	**-781**	**-1,429**	**-1,255**	**-1,082**	**-908**	**-734**	**-561**
% of GDP	*-5.5%*	*-10.1%*	*-8.8%*	*-7.6%*	*-6.4%*	*-5.2%*	*-3.9%*
Scenario 3 (Oil Tax Rate of 35.1%):							
Primary Fiscal Balance	**34**	**-529**	**-341**	**-153**	**34**	**222**	**410**
% of GDP	*0.2%*	*-3.7%*	*-2.4%*	*-1.1%*	*0.2%*	*1.6%*	*2.9%*
Overall Fiscal Balance	**-781**	**-1,344**	**-1,157**	**-969**	**-781**	**-593**	**-406**
% of GDP	*-5.5%*	*-9.5%*	*-8.1%*	*-6.8%*	*-5.5%*	*-4.2%*	*-2.9%*
Scenario 4 (Oil Tax Rate of 37.5%):							
Primary Fiscal Balance	**34**	**-453**	**-253**	**-52**	**148**	**348**	**549**
% of GDP	*0.2%*	*-3.2%*	*-1.8%*	*-0.4%*	*1.0%*	*2.4%*	*3.9%*
Overall Fiscal Balance	**-781**	**-1,269**	**-1,068**	**-868**	**-668**	**-467**	**-267**
% of GDP	*-5.5%*	*-8.9%*	*-7.5%*	*-6.1%*	*-4.7%*	*-3.3%*	*-1.9%*
Scenario 5 (Oil Tax Rate of 40.0%):							
Primary Fiscal Balance	**34**	**-373**	**-159**	**54**	**268**	**482**	**696**
% of GDP	*0.2%*	*-2.6%*	*-1.1%*	*0.4%*	*1.9%*	*3.4%*	*4.9%*
Overall Fiscal Balance	**-781**	**-1,189**	**-975**	**-761**	**-547**	**-334**	**-120**
% of GDP	*-5.5%*	*-8.4%*	*-6.9%*	*-5.4%*	*-3.9%*	*-2.3%*	*-0.8%*

Source: Angolan authorities and Eaglestone Securities.

ANNEX – ECONOMIC FORECAST SUMMARY

ECONOMIC FORECAST SUMMARY	2011	2012	2013	2014	2015F	2016F	2017F	2018F
Gross Domestic Product (annual growth)								
Real GDP	3.9%	5.2%	6.8%	4.8%	2.9%	3.2%	3.6%	4.0%
Oil Sector	-5.6%	4.3%	-0.9%	-2.6%	6.0%	4.0%	1.9%	1.6%
Non-oil sector	9.7%	5.6%	10.9%	8.2%	1.8%	2.9%	4.4%	5.1%
Gross Domestic Product (current prices, AOA bn)	9,780	11,011	11,985	12,713	12,227	14,658	17,324	20,250
Gross Domestic Product (current prices, US$ bn)	104.1	115.3	124.2	129.3	101.6	88.8	95.4	112.5
Population (million)	22.3	23.0	23.7	24.4	25.1	25.9	26.6	27.4
Gross Domestic Product per capita (US$)	4,666	5,018	5,245	5,304	4,046	3,434	3,582	4,099
Investment (% of GDP)								
Total Investment	12.9%	14.9%	14.8%	15.0%	10.4%	11.3%	12.3%	11.8%
Gross National Savings	25.5%	26.9%	21.5%	13.5%	2.8%	5.8%	7.9%	8.8%
External Sector								
Exports of Goods & Services (annual growth)	-5.4%	3.8%	0.1%	-3.5%	13.2%	3.0%	-0.3%	0.2%
Imports of Goods & Services (annual growth)	10.0%	8.6%	9.0%	7.0%	-19.8%	-2.9%	4.5%	2.2%
Current Account Balance (% of GDP)	12.6%	12.0%	6.7%	-2.9%	-7.6%	-5.6%	-4.4%	-3.0%
Oil Sector								
Production (million bpd)	1.66	1.73	1.72	1.67	1.80	1.89	1.92	1.95
Price (US$ per barrel)	110.9	111.6	107.7	104.0	53.0	45.0	55.0	52.5
Consumer Price Inflation								
Consumer Prices (period average)	13.5%	10.3%	8.8%	7.3%	10.3%	14.2%	12.4%	11.4%
Consumer Prices (end of period)	11.4%	9.0%	7.7%	7.5%	14.3%	13.2%	12.2%	11.0%
General Government (% of GDP)								
Revenues	48.8%	46.5%	40.2%	35.3%	25.4%	24.7%	25.2%	27.9%
Expenditures	40.2%	39.8%	39.9%	41.9%	29.6%	30.2%	30.5%	28.6%
Fiscal Balance	8.7%	6.7%	0.3%	-6.6%	-4.2%	-5.5%	-5.3%	-0.7%
Gross Debt	31.4%	28.7%	36.2%	42.2%	57.4%	53.0%	50.0%	46.1%
Foreign Investment and Reserves								
Net Foreign Direct Investment (US$ mn)	-5,116	-9,639	-13,164	-5,106	1,785	2,000	n.a.	n.a.
Net International Reserves (US$ mn)	26,321	30,828	31,154	27,276	22,700	20,100	21,500	22,750
Net International Reserves (in months of imports)	6.4	7.1	6.6	6.2	6.0	5.8	6.0	6.3
Exchange Rate								
Exchange Rate (period average, AOA/US$)	94.1	95.6	96.5	98.4	120.3	165.0	181.5	180.0
Exchange Rate (end of period, AOA/US$)	95.5	95.7	97.6	102.9	135.2	170.0	187.0	180.0

Source: Angolan authorities, World Bank, IMF and Eaglestone Securities.

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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

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