# The Angolan Economy

## Budget Proposal 2018

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**Growth forecast of 4.9% for 2018 likely optimistic**

The Angolan government believes that economic activity will improve significantly in 2018 from the performance recorded in recent years. Its real GDP growth forecast of 4.9% incorporated in the budget proposal is broken down by projections of 6.1% for the oil sector and 4.4% for the non-oil sector. We believe these forecasts to be somewhat optimistic bearing in mind Angola's current macroeconomic situation and immediate challenges. These include the need for the local authorities to implement additional fiscal consolidation measures, a persistently tight monetary policy stance and an exchange rate adjustment. The growth outlook in the longer-term will depend on the commitment to implement major structural reforms in the country. These will be fundamental to a rebalancing of the local economy away from its dependence on the oil sector and also improve the business environment in order to attract higher foreign investment in the country.

**Fiscal deficit to decline further on higher oil sector related proceeds**

The government estimates that the fiscal deficit stood at 5.3% of GDP in 2017, lower than the 5.8% projected in the budget proposal. This better than expected evolution was likely due to much lower spending levels that more than offset a more reduced contribution from revenues. Meanwhile, the government anticipates that a significant improvement in oil-related receipts this year (40.9% vs. 2017E), boosted by slightly higher oil prices and production, will help to reduce the fiscal deficit further in 2018. The current budget proposal foresees average daily oil production will increase 1.5% to 1.699 million bpd and a price of US$ 50 (vs. US$ 48.4 in 2017). We believe the oil price assumption is conservative, standing at the bottom-end of current consensus estimates for Brent. Non-oil revenues are also projected to see a (likely optimistic) rise of 39.9%, reflecting the continued efforts to improve tax collection outside of the oil sector. In terms of expenditures, it is worth noting the surge (of 36.2%) in interest payments again in 2018, representing 18.9% of total spending and 4.1% of GDP (vs. 2.8% and 1.2%, respectively, in 2014). Overall, the 2018 proposal foresees a budget deficit of 3% of GDP, which is an ambitious target aimed at continuing the fiscal consolidation efforts of the local authorities that will ideally place public debt back on a downward trajectory and below the debt ceiling of 60% of GDP.

**A US$ 60 oil price would mean 10.9% higher revenues than current forecast**

The execution of the 2018 fiscal budget remains highly dependent on the evolution of the oil sector, both in terms of its production and price. However, the evolution of oil prices is always quite uncertain and could be impacted by several factors, namely related to geopolitics or the ones that can affect the balance of supply and demand in the market. Due to this uncertainty, we carried out a sensitivity analysis to try to see the potential impact that different oil prices and implied tax rates for the oil sector would have on the government's forecasted revenues for this year. We note that in our analysis we assume an adjustment of 15% to the US$/AKZ exchange rate from 2017 levels, but all else to be equal, namely the expenditures envisaged for 2018. As an example, if the average oil price reaches US$ 60 (vs. the current assumption of US$ 50) then total revenues would be 10.9% higher (or US$ 2,515 million) than the current budget forecast. On the other hand, if the oil price averages US$ 45 then revenues would be 5.4% lower (or US$ 1,257 million) than the current projection.

## MACROECONOMIC SCENARIO

*Economic activity has slowed sharply since the second half of 2014*

Economic activity in Angola has decelerated markedly since the second half of 2014 mainly as a result of the significant decline in oil prices during this period. The freefall in oil prices (from a peak above US$ 110 in early-2014 to as low as US$ 28 in the first quarter of 2016) had major implications in the country's fiscal and external accounts, foreign exchange market and the real economy. Real GDP growth stood at only 4.8% in 2014, 3% in 2015 and stagnated to 0.1% in 2016. This is well below the 6.8% in 2013 and the double-digit growth average in the previous decade. Activity recovered slightly in 2017, but the government's latest forecast suggests that growth likely stood at just 1.1%, below the 2.1% projected in last year's budget proposal.

*The oil price shock had a major impact on fiscal and external accounts, the foreign exchange market and the real economy*

Specifically, the oil price shock had major impact on: (1) oil related exports and fiscal receipts, with these also being penalized by a higher weight in cost oil in the sale of every barrel; (2) inflation, which in 2016 surged to levels unseen since 2004, reducing the purchasing power of a large part of the local population; (3) foreign exchange market, with a lower availability of foreign currency leading to a devaluation of the kwanza and a widening of the gap between the exchange rates in the official and parallel markets; (4) net international reserves, which started to decline in 2014 and have since then kept a downward trend; and (5) liquidity levels, leading to higher interest rates that have impacted debt service levels and hurt private investment.

*The local authorities have implemented several measures (both on the fiscal and monetary fronts) to smoothen the impact from lower oil prices*

The Angolan authorities have implemented several measures in recent years, both on the fiscal and monetary fronts, in order to try to attenuate the impact of sharply lower oil prices. On the fiscal front, the government lowered spending levels, namely capital expenditures (down nearly 45% in the period 2014-17), and gradually reduced the level of subsidies, eliminating fuel subsidies almost entirely. It also introduced programs to re-register public sector employees as well as to improve tax collection. On the monetary front, the central bank adjusted the foreign exchange market, allowing the kwanza to depreciate by nearly 70% during 2014-16. It raised the BNA rate five times (+200bps) in 2015, three times (+500bps) in 2016 and once (+200bps) last November, lifting its benchmark rate to a multi-year high of 18%. The BNA also raised the domestic banks' mandatory reserve requirements in local currency three times since the end of 2014, placing the required level at 30% from 15% previously.

*The government expects economic activity to accelerate significantly in 2018, forecasting real GDP growth of 4.9%*

Meanwhile, the macroeconomic scenario in the 2018 budget proposal assumes that activity will improve significantly this year, boosted by both the oil and non-oil sectors. It incorporates a real GDP growth forecast of 4.9% that is broken down by projections of 6.1% for the oil sector and 4.4% for the non-oil sector. This compares with estimates of -0.5% and 1.9%, respectively, for 2017. The budget proposal foresees average daily oil production will increase by 1.5% to 1.699 million barrels per day from an estimated output of 1.673 million in 2017 while oil prices are expected to average US$ 50, slightly higher than US$ 48.4 last year. The 4.4% growth forecast for the non-oil sector incorporates a 5.9% expansion in agriculture, 4.3% in commerce, 3.1% in construction, 1.8% in manufacturing, 4.4% in extractive industry and 60.6% in energy.

*Inflation is expected to remain elevated despite tighter monetary and fiscal policies*

Consumer price inflation is expected to remain elevated after peaking at 42% in late 2016 and gradually declining to an estimated 23% last year. This assumption comes despite significantly tighter monetary and fiscal policies as well as the implementation of several measures aimed at combating inflation, including the introduction of price controls and the replacement of the supply of some essential goods. The government's 28.7% inflation forecast likely incorporates the impact from an adjustment to the kwanza exchange rate in 2018.

| MACRO FORECASTS | 2013 | 2014 | 2015 | 2016 | 2017 (1) | 2017 (2) | 2018 (1) |
|---|---|---|---|---|---|---|---|
| Inflation | 7.7% | 7.5% | 14.3% | 42.0% | 15.8% | 22.9% | 28.7% |
| Annual oil production (mn barrels) | 626.3 | 610.2 | 648.5 | 611.2 | 664.7 | 610.6 | 620.0 |
| Daily oil production (million bpd) | 1.716 | 1.672 | 1.777 | 1.675 | 1.821 | 1.673 | 1.699 |
| Average oil price (US$ per barrel) | 107.7 | 96.9 | 53.7 | 41.8 | 46.0 | 48.4 | 50.0 |
| Gross domestic product: | | | | | | | |
| Nominal value (AKZ billion) | 12,056 | 12,462 | 12,321 | 16,662 | 19,746 | 18,350 | 23,872 |
| Oil sector | 4,818 | 4,304 | 2,884 | 3,149 | 3,753 | 3,573 | 5,017 |
| % of total | 40.0% | 34.5% | 23.4% | 18.9% | 19.0% | 19.5% | 21.0% |
| Non-oil sector | 7,239 | 8,158 | 9,436 | 13,513 | 15,993 | 14,778 | 18,855 |
| % of total | 60.0% | 65.5% | 76.6% | 81.1% | 81.0% | 80.5% | 79.0% |
| Real GDP growth | 6.8% | 4.8% | 3.0% | 0.1% | 2.1% | 1.1% | 4.9% |
| Oil sector | -0.9% | -2.6% | 6.3% | -2.3% | 1.8% | -0.5% | 6.1% |
| Non-oil sector | 10.9% | 8.2% | 1.5% | 1.2% | 2.3% | 1.9% | 4.4% |
| Exchange rate (US$/AKZ) | 96.6 | 98.3 | 120.1 | 164.0 | 165.9 | 165.9 | - |

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

## GOVERNMENT ACCOUNTS (2017)

*The government expects that the 2017 budget deficit will be lower than initially estimated in the budget proposal*

The Angolan government expects that last year's fiscal deficit will be lower than the estimate included in the 2017 budget proposal, standing at AKZ 968 billion (or -5.3% of GDP) in the period. This compares with a deficit of AKZ 1,140 billion (-5.8% of GDP) initially foreseen. This better than expected performance is likely to come from much lower spending levels than previously anticipated, as they more than offset a more reduced contribution from revenues.

*Expenditures are likely to be lower than expected on all fronts expect interest payments*

The government believes that it spent less than forecasted on all fronts except debt payments in 2017. As highlighted later, the large increase in interest expenditures is the result of the surge in the country's debt levels in recent years, which have risen to the 60% of GDP debt ceiling from just above 20% of GDP in 2012. On the revenue front, oil tax receipts are expected to stand in line with the budgeted estimate. However, non-oil tax receipts are likely to miss the government's initial target by a long shot (-27.2%).

*The 2017 budget deficit is expected to stand at 5.3% of GDP*

In particular, the local authorities anticipate revenues of AKZ 3,254 billion and expenditures of AKZ 4,222 billion in 2017. This compares with estimates of AKZ 3,668 billion and AKZ 4,808 billion, respectively, in the 2017 budget proposal (or negative deviations of 11.3% and 12.2%, respectively), as detailed below.

| GOVERNMENT ACCOUNTS | | | Change |
|---|---|---|---|
| AKZ BILLION | 2017 Budget | 2017 Forecast | Forecast vs. Budget |
| **Revenues** | **3,668** | **3,254** | **-11.3%** |
| *% of GDP* | *18.6%* | *17.7%* | |
| Tax Revenues | 3,404 | 2,947 | -13.4% |
| Oil Revenues | 1,696 | 1,703 | 0.5% |
| Non-oil Revenues | 1,709 | 1,244 | -27.2% |
| Of which: Income Taxes | 862 | 697 | -19.1% |
| Non-tax Revenues | 264 | 307 | 16.3% |
| **Expenditures** | **4,808** | **4,222** | **-12.2%** |
| *% of GDP* | *24.3%* | *23.0%* | |
| Current Expenditures | 3,813 | 3,373 | -11.5% |
| Wages | 1,614 | 1,493 | -7.5% |
| Goods and Services | 1,035 | 718 | -30.6% |
| Interests | 484 | 711 | 46.8% |
| Transfers | 680 | 451 | -33.7% |
| Subsidies | 292 | 112 | -61.5% |
| Capital Expenditure | 995 | 849 | -14.7% |
| Public Investment | 995 | 839 | -15.7% |
| **Primary Fiscal Balance** | **-145** | **-120** | **-17.4%** |
| *% of GDP* | *-0.7%* | *-0.7%* | |
| **Overall Fiscal Balance** | **-1,140** | **-968** | **-15.0%** |
| *% of GDP* | *-5.8%* | *-5.3%* | |

Sources: Angolan authorities and Eaglestone Securities.

## BUDGET PROPOSAL (2018)

*The government expects an increase of 20.1% in revenues and 6.7% in expenditures this year when compared with the 2017 budget*

The Angolan government recently disclosed to parliament its budget proposal for 2018. The document is now expected to be discussed and voted for approval in the coming weeks. In the proposal, the local authorities expect total revenues and total expenditures to reach AKZ 4,404 billion and AKZ 5,129 billion, respectively, this year. This is an increase of 35.4% in revenues and 21.5% in expenditures when compared with the 2017 year-end projections. Moreover, they are 20.1% and 6.7% higher than the 2017 budget estimates, respectively. In 2018, the fiscal deficit budget projection stands at AKZ 725 billion, which is 25.2% lower than the forecast for last year (or 36.4% lower than the 2017 budget estimate). It is also worth highlighting that the primary fiscal balance (which excludes interest payments) is projected to reach a surplus for the first time since 2013, as debt payments are expected to surge this year.

*Receipts from the oil sector are expected to improve more than 40% as a result of a higher estimate for both the oil price and oil production*

In terms of revenues, the government foresees a surge of 40.5% YoY in tax revenues in 2018, but a drop of 13.7% YoY in non-tax receipts, when compared with its year-end 2017 forecasts. The higher estimate for both the oil price and production this year relatively to 2017 means that the local authorities see proceeds from the oil sector improving more than 40% from last year's forecasts. They also believe that their continued efforts to improve tax collection outside of the oil sector will continue to be reflected in higher non-oil receipts, with these expected to rise nearly 40% from 2017.

*The expected increase in spending levels will (once again) be mostly driven by higher current expenditures*

Meanwhile, the increase in spending levels should continue to be driven by higher current expenditures (+24.2% when compared with the forecast for 2017). This will be mostly felt in spending on interest payments (+36.2%), which are expected to double the amount in the 2017 budget proposal, but also spending on good and services (+35.6%) as well as on transfers (+33%), as subsidies could double from the 2017 forecast. Wages are expected to expand at a more moderate rate, but still record double-digit growth in 2018. It is also worth noting that the government expects to increase capital spending levels, although these are anticipated to stand below the 2017 budget projection.

| GOVERNMENT ACCOUNTS | | | | | | | | | Change | |
|---|---|---|---|---|---|---|---|---|---|---|
| AKZ BILLION | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 (1) | 2017 (2) | 2018 (1) | 2018 (1) / 2017 (1) | 2018 (1) / 2017 (2) |
| **Revenues** | **5,054** | **4,849** | **4,403** | **3,367** | **2,900** | **3,668** | **3,254** | **4,404** | **20.1%** | **35.4%** |
| Tax Revenues | 4,826 | 4,602 | 4,098 | 3,042 | 2,599 | 3,404 | 2,947 | 4,139 | 21.6% | 40.5% |
| Oil Revenues | 4,103 | 3,630 | 2,970 | 1,898 | 1,373 | 1,696 | 1,703 | 2,399 | 41.5% | 40.9% |
| Non-oil Revenues | 723 | 972 | 1,128 | 1,144 | 1,227 | 1,709 | 1,244 | 1,740 | 1.8% | 39.9% |
| Of which: Income Taxes | 325 | 502 | 545 | 664 | 720 | 862 | 697 | 834 | -3.3% | 19.6% |
| Non-tax Revenues | 228 | 247 | 305 | 325 | 301 | 264 | 307 | 265 | 0.5% | -13.7% |
| **Expenditures** | **4,329** | **4,816** | **5,221** | **3,774** | **3,648** | **4,808** | **4,222** | **5,129** | **6.7%** | **21.5%** |
| Current Expenditures | 3,184 | 3,437 | 3,666 | 3,038 | 3,003 | 3,813 | 3,373 | 4,190 | 9.9% | 24.2% |
| Wages | 1,031 | 1,155 | 1,319 | 1,390 | 1,397 | 1,614 | 1,493 | 1,647 | 2.1% | 10.3% |
| Goods and Services | 1,297 | 1,228 | 1,249 | 787 | 624 | 1,035 | 718 | 975 | -5.8% | 35.6% |
| Interests | 105 | 99 | 147 | 249 | 470 | 484 | 711 | 968 | 100.0% | 36.2% |
| Transfers | 752 | 955 | 950 | 612 | 512 | 680 | 451 | 600 | -11.8% | 33.0% |
| Subsidies | 548 | 710 | 668 | 279 | 161 | 292 | 112 | 225 | -22.9% | 100.4% |
| Capital Expenditure | 1,145 | 1,379 | 1,555 | 736 | 645 | 995 | 849 | 939 | -5.6% | 10.6% |
| Public Investment | 1,145 | 1,376 | 1,547 | 719 | 634 | 995 | 839 | 939 | -5.6% | 11.9% |
| **Primary Fiscal Balance** | **830** | **131** | **-672** | **-159** | **-278** | **-656** | **-258** | **244** | **n.m.** | **n.m.** |
| **Overall Fiscal Balance** | **725** | **32** | **-819** | **-407** | **-748** | **-1,140** | **-968** | **-725** | **-36.4%** | **-25.2%** |

(1) Budget Proposal; (2) Forecast. Sources: Angolan authorities and Eaglestone Securities.

*Revenues as a percentage of GDP clearly declined during 2012-16 as a result of the lower contribution from oil revenues*

The table below shows the government's accounts as a percentage of GDP since 2012. One can clearly see that the percentage of revenues to GDP has fallen in the period 2012-16 as a result of the significant drop in the contribution from oil revenues, particularly since 2014. However, this downward trend was probably interrupted last year, with the 2018 projection also including a slight improvement that reflects higher oil and non-oil tax proceeds.

*The amount of spending as a percentage of GDP has also fallen, especially capital expenditures*

The amount of expenditures as a percentage of GDP has also declined and is expected to stand at 21.5% in 2018 (down from a forecast of 23% of GDP in 2017). Most notably, it is worth highlighting the marked decline in capital expenditures, which are only expected to represent 3.9% of GDP this year. This compares with double-digit figures in the period 2012-14. Current expenditures as a percentage of GDP have also fallen in recent years, but are still expected to continue to represent more than 17.5% of GDP in 2018.

*The 2018 budget deficit is expected at 3% of GDP*

Overall, the 2018 budget proposal foresees a budget deficit of 3% of GDP. This compares with a forecast of -5.3% in 2017 and -5.8% in the 2017 budget. The primary balance is expected to reach a surplus of 1% of GDP (vs. -1.4% in 2017E and -3.3% in the 2017 budget).

| GOVERNMENT ACCOUNTS | | | | | | | | % of GDP |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 (1) | 2017 (2) | 2018 (1) |
| **Revenues** | **46.5%** | **40.2%** | **35.3%** | **27.3%** | **17.4%** | **18.6%** | **17.7%** | **18.4%** |
| Tax Revenues | 44.4% | 38.2% | 32.9% | 24.7% | 15.6% | 17.2% | 16.1% | 17.3% |
| Oil Revenues | 37.7% | 30.1% | 23.8% | 15.4% | 8.2% | 8.6% | 9.3% | 10.1% |
| Non-oil Revenues | 6.6% | 8.1% | 9.1% | 9.3% | 7.4% | 8.7% | 6.8% | 7.3% |
| Of which: Income Taxes | 3.0% | 4.2% | 4.4% | 5.4% | 4.3% | 4.4% | 3.8% | 3.5% |
| Non-tax Revenues | 2.1% | 2.0% | 2.4% | 2.6% | 1.8% | 1.3% | 1.7% | 1.1% |
| **Expenditures** | **39.8%** | **39.9%** | **41.9%** | **30.6%** | **21.9%** | **24.3%** | **23.0%** | **21.5%** |
| Current Expenditures | 29.3% | 28.5% | 29.4% | 24.7% | 18.0% | 19.3% | 18.4% | 17.6% |
| Wages | 9.5% | 9.6% | 10.6% | 11.3% | 8.4% | 8.2% | 8.1% | 6.9% |
| Goods and Services | 11.9% | 10.2% | 10.0% | 6.4% | 3.7% | 5.2% | 3.9% | 4.1% |
| Interests | 1.0% | 0.8% | 1.2% | 2.0% | 2.8% | 2.5% | 3.9% | 4.1% |
| Transfers | 6.9% | 7.9% | 7.6% | 5.0% | 3.1% | 3.4% | 2.5% | 2.5% |
| Subsidies | 5.0% | 5.9% | 5.4% | 2.3% | 1.0% | 1.5% | 0.6% | 0.9% |
| Capital Expenditure | 10.5% | 11.4% | 12.5% | 6.0% | 3.9% | 5.0% | 4.6% | 3.9% |
| Public Investment | 10.5% | 11.4% | 12.4% | 5.8% | 3.8% | 5.0% | 4.6% | 3.9% |
| **Primary Fiscal Balance** | **7.6%** | **1.1%** | **-5.4%** | **-1.3%** | **-1.7%** | **-3.3%** | **-1.4%** | **1.0%** |
| **Overall Fiscal Balance** | **6.7%** | **0.3%** | **-6.6%** | **-3.3%** | **-4.5%** | **-5.8%** | **-5.3%** | **-3.0%** |

(1) Budget Proposal; (2) Forecast. Sources: Angolan authorities and Eaglestone Securities.

The figures in the table below show that non-oil sector related taxes have increased markedly in recent years. This reflects the impact from lower oil prices on government revenues and also the increased efforts to broaden tax collection from other sources outside of the oil sector. Still, contrary to what the government anticipated in the 2017 budget proposal, the contribution from non-oil revenues is expected to remain well below the projected figure for the oil sector, showing the large dependency that the country has on this sector.

*Despite the higher contribution from the non-oil sector in recent years, Angola remains very much dependent on oil*

On the other hand, the local authorities continue to allocate the largest share of their spending to pay the salaries of public sector workers, as these are expected to account for almost a third of the total expenditures once again in 2018. However, the figure that clearly stands out is the proportion of government spending expected to be allocated towards interest payments, which this year is expected to reach 18.9% of the total. This is a major increase compared with the figures of the recent past. All in all, current expenditures are expected to represent nearly 82% of total public spending in 2018.

*Although nearly a third of public expenditures is still allocated to pay wages, interest payments have increased significantly in recent years*

| GOVERNMENT ACCOUNTS | % of Total | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 (1) | 2017 (2) | 2018 (1) |
| **Revenues** | | | | | | | | |
| Tax Revenues (Oil) | 81.2% | 74.9% | 67.5% | 56.4% | 47.3% | 46.2% | 52.3% | 54.5% |
| Tax Revenues (Non-Oil) | 14.3% | 20.1% | 25.6% | 34.0% | 42.3% | 46.6% | 38.2% | 39.5% |
| Non-tax Revenues | 4.5% | 5.1% | 6.9% | 9.6% | 10.4% | 7.2% | 9.4% | 6.0% |
| **Total Revenues** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **Expenditures** | | | | | | | | |
| Wages | 23.8% | 24.0% | 25.3% | 36.8% | 38.3% | 33.6% | 35.4% | 32.1% |
| Goods and Services | 30.0% | 25.5% | 23.9% | 20.9% | 17.1% | 21.5% | 17.0% | 19.0% |
| Interests | 2.4% | 2.1% | 2.8% | 6.6% | 12.9% | 10.1% | 16.8% | 18.9% |
| Transfers | 17.4% | 19.8% | 18.2% | 16.2% | 14.0% | 14.1% | 10.7% | 11.7% |
| Subsidies | 12.7% | 14.7% | 12.8% | 7.4% | 4.4% | 6.1% | 2.7% | 4.4% |
| Capital Expenditure | 26.4% | 28.6% | 29.8% | 19.5% | 17.7% | 20.7% | 20.1% | 18.3% |
| **Total Expenditures** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

(1) Budget Proposal; (2) Forecast. Source: Angolan authorities and Eaglestone Securities.

In terms of expenditures by sector, the government expects to spend AKZ 4,613 billion this year if excluding spending on public debt operations. This is 7.9% less than what it forecasted in the 2017 budget proposal. However, total expenditures are anticipated to advance by 31.8% to AKZ 9,686 billion if including public debt operations, as these are projected to more than double from last year. As detailed in the table below, planned spending on the social sector is forecasted to rise less than 2% YoY, with increases in spending on healthcare (10.8%), housing (6.6%) and education (4.8%). The government plans to spend less on defense, security and public order (-1.4%) and general public services and other (-23.5%) in 2018.

*Total expenditures by sector are expected to fall in 2018 if excluding public debt operations*

| EXPENDITURES BY SECTOR | | | | | | | Change | |
|---|---|---|---|---|---|---|---|---|
| AKZ BILLION | 2013 | 2014 | 2015 | 2016 (1) | 2017 (2) | 2018 (2) | 2017 (2) / 2016 (1) | 2018 (2) / 2017 (2) |
| Social Sector | 2,226 | 2,175 | 1,773 | 1,926 | 1,923 | 1,956 | -0.1% | 1.7% |
| Education | 586 | 448 | 468 | 456 | 500 | 524 | 9.6% | 4.8% |
| Health | 369 | 316 | 270 | 303 | 318 | 352 | 4.8% | 10.8% |
| Social Protection | 737 | 697 | 708 | 759 | 727 | 681 | -4.2% | -6.3% |
| Housing | 312 | 572 | 255 | 374 | 335 | 358 | -10.3% | 6.6% |
| Other | 223 | 143 | 72 | 34 | 43 | 41 | 26.0% | -4.0% |
| Economic Sector | 1,218 | 1,424 | 584 | 854 | 900 | 764 | 5.3% | -15.1% |
| Defense, Security and Social Order | 1,171 | 1,194 | 847 | 930 | 989 | 975 | 6.4% | -1.4% |
| General Public Services and Other | 2,020 | 2,465 | 835 | 1,036 | 1,199 | 917 | 15.7% | -23.5% |
| **Total Expend. (Ex. Public Debt Oper.)** | **6,636** | **7,258** | **4,040** | **4,745** | **5,011** | **4,613** | **5.6%** | **-7.9%** |
| Public Debt Operations | 687 | 915 | 1,414 | 2,213 | 2,338 | 5,073 | 5.7% | 116.9% |
| **Total Expenditures** | **7,322** | **8,173** | **5,454** | **6,959** | **7,349** | **9,686** | **5.6%** | **31.8%** |

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

A breakdown of expenditures by sector shows that there has been a clear shift in the amount of spending allocated towards public debt operations and away from other sectors in recent years. One can see in the table below that public debt operations are expected to represent more than half of total expenditures this year. This compares with less than 10% in 2013 and has come at the expense of the amount of spending allocated to areas such as education, healthcare, social protection and housing. As witnessed in recent years, expenditures with defense, security and social order are once again expected to take a bigger share of the total combined spending with education and health (10.1% vs. 9%).

*Spending with public debt operations represented more than 50% of total expenditures*

| EXPENDITURES BY SECTOR | % of Total | | | | | |
|---|---|---|---|---|---|---|
| AKZ BILLION | 2013 | 2014 | 2015 | 2016 (1) | 2017 (2) | 2018 (2) |
| Social Sector | 30.4% | 26.6% | 32.5% | 27.7% | 26.2% | 20.2% |
| Education | 8.0% | 5.5% | 8.6% | 6.6% | 6.8% | 5.4% |
| Health | 5.0% | 3.9% | 4.9% | 4.4% | 4.3% | 3.6% |
| Social Protection | 10.1% | 8.5% | 13.0% | 10.9% | 9.9% | 7.0% |
| Housing | 4.3% | 7.0% | 4.7% | 5.4% | 4.6% | 3.7% |
| Other | 3.0% | 1.8% | 1.3% | 0.5% | 0.6% | 0.4% |
| Economic Sector | 16.6% | 17.4% | 10.7% | 12.3% | 12.2% | 7.9% |
| Defense, Security and Social Order | 16.0% | 14.6% | 15.5% | 13.4% | 13.5% | 10.1% |
| General Public Services and Other | 27.6% | 30.2% | 15.3% | 14.9% | 16.3% | 9.5% |
| **Total Expend. (Ex. Public Debt Oper.)** | **90.6%** | **88.8%** | **74.1%** | **68.2%** | **68.2%** | **47.6%** |
| Public Debt Operations | 9.4% | 11.2% | 25.9% | 31.8% | 31.8% | 52.4% |
| **Total Expenditures** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

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

*The government expects to rely more on debt markets to finance its expenditures*

The Angolan government expects to finance its expenditures by relying more on debt markets rather than fiscal revenues this year. Budget figures show that total borrowing expected in 2018 is forecasted to account for 49.4% of total government receipts, with 29.1% being domestic and 20.2% borrowing from overseas markets. Fiscal revenues are expected to represent 45.5% of the total proceeds (vs. 49.6% in 2017) after taxes from the oil sector are expected to show some recovery from the previous year.

*Almost 43% of receipts are expected to be used for debt amortization*

The local authorities anticipate using nearly 43% of the proceeds for debt amortization, most notably external debt, while 10% is expected to be used in interest payments. Also, 16% of the total proceeds are estimated to be used to pay the wages of public sector employees and 10% for spending on goods and services, as described below.

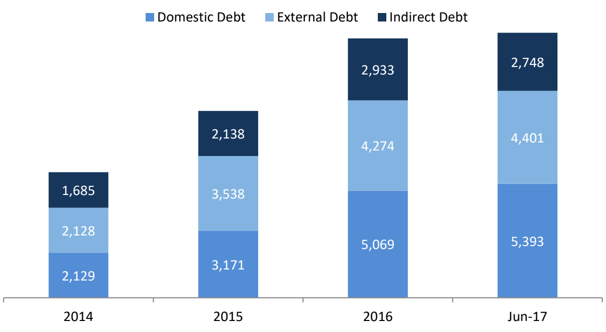
| FINANCING (1) | | | | % of Total | | | % of GDP | | |
|---|---|---|---|---|---|---|---|---|---|
| AKZ BILLION | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| **Receipts** | | | | | | | | | |
| Fiscal Revenues | 3,514 | 3,668 | 4,404 | 54.7% | 49.6% | 45.5% | 24.7% | 18.6% | 18.4% |
| Taxes | 3,235 | 3,404 | 4,139 | 50.3% | 46.1% | 42.7% | 22.8% | 17.2% | 17.3% |
| Oil Sector | 1,690 | 1,695 | 2,399 | 26.3% | 22.9% | 24.8% | 11.9% | 8.6% | 10.1% |
| Non-oil Sector | 1,545 | 1,709 | 1,740 | 24.0% | 23.1% | 18.0% | 10.9% | 8.7% | 7.3% |
| Social Contributions | 153 | 173 | 173 | 2.4% | 2.3% | 1.8% | 1.1% | 0.9% | 0.7% |
| Other | 127 | 91 | 92 | 2.0% | 1.2% | 1.0% | 0.9% | 0.5% | 0.4% |
| Asset Sales | 2 | 498 | 501 | 0.0% | 6.7% | 5.2% | 0.0% | 2.5% | 2.1% |
| Financing | 2,913 | 3,225 | 4,781 | 45.3% | 43.6% | 49.4% | 20.5% | 16.3% | 20.0% |
| Domestic | 1,395 | 1,660 | 2,821 | 21.7% | 22.5% | 29.1% | 9.8% | 8.4% | 11.8% |
| International | 1,518 | 1,564 | 1,959 | 23.6% | 21.2% | 20.2% | 10.7% | 7.9% | 8.2% |
| **Total Receipts** | **6,429** | **7,390** | **9,686** | **100.0%** | **100.0%** | **100.0%** | **45.2%** | **37.4%** | **40.6%** |
| **Expenditures** | | | | | | | | | |
| Staff Costs | 1,497 | 1,614 | 1,647 | 23.3% | 21.8% | 17.0% | 10.5% | 8.2% | 6.9% |
| Wages | 1,420 | 1,513 | 1,545 | 22.1% | 20.5% | 15.9% | 10.0% | 7.7% | 6.5% |
| Goods and Services | 995 | 1,035 | 975 | 15.5% | 14.0% | 10.1% | 7.0% | 5.2% | 4.1% |
| Interests | 307 | 484 | 968 | 4.8% | 6.6% | 10.0% | 2.2% | 2.5% | 4.1% |
| Domestic | 152 | 262 | 517 | 2.4% | 3.5% | 5.3% | 1.1% | 1.3% | 2.2% |
| External | 155 | 222 | 451 | 2.4% | 3.0% | 4.7% | 1.1% | 1.1% | 1.9% |
| Transfers | 680 | 680 | 600 | 10.6% | 9.2% | 6.2% | 4.8% | 3.4% | 2.5% |
| Subsidies | 370 | 292 | 225 | 5.8% | 3.9% | 2.3% | 2.6% | 1.5% | 0.9% |
| Acquisition of Non-Fin. Assets | 816 | 995 | 939 | 12.7% | 13.5% | 9.7% | 5.7% | 5.0% | 3.9% |
| Debt Amortization | 1,744 | 2,197 | 4,153 | 27.1% | 29.7% | 42.9% | 12.3% | 11.1% | 17.4% |
| Domestic | 1,284 | 1,622 | 1,394 | 20.0% | 22.0% | 14.4% | 9.0% | 8.2% | 5.8% |
| External | 459 | 575 | 2,759 | 7.1% | 7.8% | 28.5% | 3.2% | 2.9% | 11.6% |
| Other Financial Investments | 390 | 385 | 403 | 6.1% | 5.2% | 4.2% | 2.7% | 2.0% | 1.7% |
| **Total Expenditures** | **6,429** | **7,390** | **9,686** | **100.0%** | **100.0%** | **100.0%** | **45.2%** | **37.4%** | **40.6%** |

(1) Budget Proposal. Source: Angolan authorities and Eaglestone Securities.

*Public debt represented 61.2% of GDP in June 2017 (vs. 46.6% in 2014)*

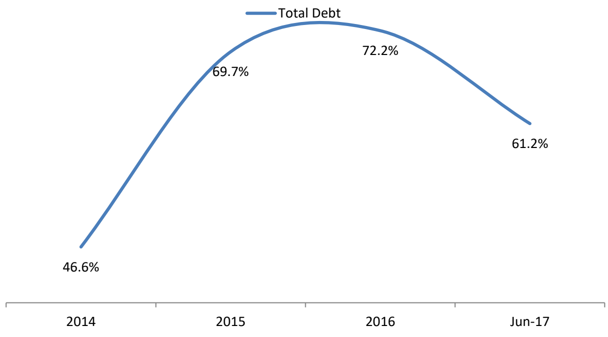
Meanwhile, the government's Macroeconomic Stabilization Plan 2017 recently released shows that public debt levels have increased significantly in recent years, reaching an estimated AKZ 12,542 billion in June 2017 (more than double the AKZ 5,942 billion in 2014). A breakdown of this debt shows that domestic debt represented 43% of the total while external debt and indirect debt accounted for 35.1% and 21.9%, respectively in the period. Moreover, total public debt represented 61.2% of GDP in June 2017, which compares with 46.6% in 2014 and a peak above 72% of GDP in 2016.

**ANGOLAN PUBLIC DEBT (AKZ BILLION)**




Source: Angolan authorities (Macroeconomic Stabilization Plan 2017).

**ANGOLAN PUBLIC DEBT (% OF GDP)**




Source: Angolan authorities (Macroeconomic Stabilization Plan 2017).

## SENSITIVITY ANALYSIS TO OIL PRICES

*The evolution of oil prices is always uncertain and dependent on geopolitics and other factors that can impact the balance between supply and demand*

Consensus forecasts suggest that the price of Brent crude oil will stand between a bottom-range just above US$ 50 and the current levels of about US$ 65. However, the evolution of oil prices is always rather uncertain and dependent on several factors, namely related to geopolitics or the ones that can affect the balance of supply and demand in the market. We believe that in 2018 oil prices will be mainly driven by three key topics. First, the compliance of OPEC and its partners to the targets set in the oil production cut agreement signed at the end of 2016 and recently extended until the end of the current year. Second, the impact that the global economic outlook will have oil demand growth and whether it will be able to absorb an expected increase in global supply, namely from non-OPEC. Third, and more importantly, the supply reaction of shale oil producers in the US to the evolution of oil prices in the foreseeable future.

*We carried out a sensitivity analysis to see the potential impact that different oil prices and implied tax rates would have on revenues*

Due to this uncertainty about the outlook on oil prices, we carried out a sensitivity analysis to see the potential impact that different oil price scenarios and implied tax rates for the oil sector would have on the government's forecasted revenues this year. We assume that all other things would remain equal, namely the expenditures envisaged in the 2018 budget proposal.

*Our sensitivity analysis considers an average oil price range of US$ 45-70 per barrel in 2018*

We have collected data on the performance of the oil sector since the year 2010 and present it below in Table 1. Our sensitivity analysis considers an average oil price range of US$ 45 and US$ 70, which we consider reasonable bearing in mind current consensus estimates for the oil price mentioned above and an implied tax rate ranging from 35% to 45% based on the data collected. We also assume an US$/AKZ exchange rate of 190.8 to reflect an adjustment of 15% to exchange rate from the 2017 level. The results of our calculations are summarized in Tables 2 and 3 and detailed in Table 4 below.

| TABLE 1 - OIL/FISCAL ACCOUNTS | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 (1) | 2017 (2) | 2018 (1) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Oil Sector** | | | | | | | | | | |
| Annual oil production (million) (A) | 641.5 | 605.9 | 631.9 | 626.3 | 610.2 | 648.5 | 611.2 | 664.7 | 610.6 | 620.0 |
| Average daily oil production (million bpd) | 1.76 | 1.66 | 1.73 | 1.72 | 1.67 | 1.78 | 1.67 | 1.82 | 1.67 | 1.70 |
| Average oil price (US$ per barrel) (B) | 77.9 | 110.1 | 111.6 | 107.7 | 96.9 | 53.7 | 41.8 | 46.0 | 48.4 | 50.0 |
| **Oil revenues (US$ million) = (A) x (B)** | **49,969** | **66,710** | **70,520** | **67,453** | **59,125** | **34,824** | **25,548** | **30,575** | **29,553** | **31,000** |
| Exchange rate (US$/AKZ) (3) | 91.1 | 94.0 | 95.4 | 96.6 | 98.3 | 120.1 | 164.0 | 165.9 | 165.9 | 190.8 |
| **Oil revenues (AKZ billion) (C)** | **4,552** | **6,271** | **6,728** | **6,516** | **5,812** | **4,182** | **4,190** | **5,072** | **4,903** | **5,914** |
| **Government Accounts** | | | | | | | | | | |
| **Oil related tax revenues (AKZ billion) (D)** | **2,500** | **3,817** | **4,103** | **3,630** | **2,970** | **1,898** | **1,373** | **1,696** | **1,703** | **2,399** |
| *Implied tax rate (oil-related) = (D) / (C)* | *54.9%* | *60.9%* | *61.0%* | *55.7%* | *51.1%* | *45.4%* | *32.8%* | *33.4%* | *34.7%* | *40.6%* |

(1) Budget Proposal; (2) Forecast; (3) We assume an adjustment of 15% to the US$/AKZ exchange rate in 2018. Sources: Angolan authorities and Eaglestone Securities.

*If the average oil price reaches US$ 60 in 2018 then total revenues would be 10.9% higher than the government's current forecast*

As an example, if the average oil price reaches US$ 60 in 2018 (vs. the existing forecast of the government of US$ 50) and assuming the same implied tax rate of 40.6% then total revenues would be 10.9% higher (or US$ 2,515 million) than the current budget forecast. On the other hand, if oil prices average US$ 45 then revenues would be 5.4% lower (or US$ 1,257 million) than the current projection.

**TABLE 2: Change in Revenues vs Budget 2018**

| | | Average Oil Price (US$) | | | | | |
|---|---|---|---|---|---|---|---|
| | | 45.0 | 50.0 | 55.0 | 60.0 | 65.0 | 70.0 |
| Implied Tax Rate | 35.0% | -12.2% | -7.5% | -2.8% | 1.9% | 6.6% | 11.3% |
| | 37.5% | -9.2% | -4.1% | 0.9% | 6.0% | 11.0% | 16.0% |
| | 40.6% | -5.4% | 0.0% | 5.4% | 10.9% | 16.3% | 21.8% |
| | 42.5% | -3.1% | 2.6% | 8.3% | 14.0% | 19.7% | 25.4% |
| | 45.0% | -0.1% | 6.0% | 12.0% | 18.0% | 24.1% | 30.1% |

Source: Eaglestone Securities.

**TABLE 3: Change in Revenues vs Budget 2018**

| | | Average Oil Price (US$) | | | | | |
|---|---|---|---|---|---|---|---|
| US$ million | | 45.0 | 50.0 | 55.0 | 60.0 | 65.0 | 70.0 |
| Implied Tax Rate | 35.0% | -2,810 | -1,725 | -640 | 445 | 1,530 | 2,615 |
| | 37.5% | -2,112 | -950 | 213 | 1,375 | 2,538 | 3,700 |
| | 40.6% | -1,257 | 0 | 1,257 | 2,515 | 3,772 | 5,030 |
| | 42.5% | -717 | 600 | 1,918 | 3,235 | 4,553 | 5,870 |
| | 45.0% | -20 | 1,375 | 2,770 | 4,165 | 5,560 | 6,955 |

Source: Eaglestone Securities.

**TABLE 4 - GOVERNMENT ACCOUNTS**

| AKZ BILLION | 2018 Budget | 45.0 | 50.0 | 55.0 | 60.0 | 65.0 | 70.0 |
|---|---|---|---|---|---|---|---|
| | | SENSITIVITY TO OIL PRICES (US$/BARREL) | | | | | |
| Scenario 1 (Oil Tax Rate of 35.0% ): | | | | | | | |
| **Revenues** | **4,404** | **3,868** | **4,075** | **4,282** | **4,489** | **4,696** | **4,903** |
| *% of GDP* | *18.4%* | *16.2%* | *17.1%* | *17.9%* | *18.8%* | *19.7%* | *20.5%* |
| Tax Revenues | 4,139 | 3,603 | 3,810 | 4,017 | 4,224 | 4,431 | 4,638 |
| Oil Revenues | 2,399 | 1,863 | 2,070 | 2,277 | 2,484 | 2,691 | 2,898 |
| *% of Total Tax Revenues* | *58.0%* | *51.7%* | *54.3%* | *56.7%* | *58.8%* | *60.7%* | *62.5%* |
| Change in Revenues vs. 2018 Budget | | *-12.2%* | *-7.5%* | *-2.8%* | *1.9%* | *6.6%* | *11.3%* |
| Scenario 2 (Oil Tax Rate of 37.5% ): | | | | | | | |
| **Revenues** | **4,404** | **4,001** | **4,223** | **4,445** | **4,667** | **4,888** | **5,110** |
| *% of GDP* | *18.4%* | *16.8%* | *17.7%* | *18.6%* | *19.5%* | *20.5%* | *21.4%* |
| Tax Revenues | 4,139 | 3,736 | 3,958 | 4,180 | 4,402 | 4,623 | 4,845 |
| Oil Revenues | 2,399 | 1,996 | 2,218 | 2,440 | 2,661 | 2,883 | 3,105 |
| *% of Total Tax Revenues* | *58.0%* | *53.4%* | *56.0%* | *58.4%* | *60.5%* | *62.4%* | *64.1%* |
| Change in Revenues vs. 2018 Budget | | *-9.2%* | *-4.1%* | *0.9%* | *6.0%* | *11.0%* | *16.0%* |
| Scenario 3 (Oil Tax Rate of 40.6% ): | | | | | | | |
| **Revenues** | **4,404** | **4,164** | **4,404** | **4,644** | **4,884** | **5,124** | **5,364** |
| *% of GDP* | *18.4%* | *17.4%* | *18.4%* | *19.5%* | *20.5%* | *21.5%* | *22.5%* |
| Tax Revenues | 4,139 | 3,899 | 4,139 | 4,379 | 4,619 | 4,859 | 5,099 |
| Oil Revenues | 2,399 | 2,159 | 2,399 | 2,639 | 2,879 | 3,119 | 3,359 |
| *% of Total Tax Revenues* | *58.0%* | *55.4%* | *58.0%* | *60.3%* | *62.3%* | *64.2%* | *65.9%* |
| Change in Revenues vs. 2018 Budget | | *-5.4%* | *0.0%* | *5.4%* | *10.9%* | *16.3%* | *21.8%* |
| Scenario 4 (Oil Tax Rate of 42.5% ): | | | | | | | |
| **Revenues** | **4,404** | **4,267** | **4,519** | **4,770** | **5,021** | **5,273** | **5,524** |
| *% of GDP* | *18.4%* | *17.9%* | *18.9%* | *20.0%* | *21.0%* | *22.1%* | *23.1%* |
| Tax Revenues | 4,139 | 4,002 | 4,254 | 4,505 | 4,757 | 5,008 | 5,259 |
| Oil Revenues | 2,399 | 2,262 | 2,514 | 2,765 | 3,016 | 3,268 | 3,519 |
| *% of Total Tax Revenues* | *58.0%* | *56.5%* | *59.1%* | *61.4%* | *63.4%* | *65.3%* | *66.9%* |
| Change in Revenues vs. 2018 Budget | | *-3.1%* | *2.6%* | *8.3%* | *14.0%* | *19.7%* | *25.4%* |
| Scenario 5 (Oil Tax Rate of 45.0% ): | | | | | | | |
| **Revenues** | **4,404** | **4,400** | **4,667** | **4,933** | **5,199** | **5,465** | **5,731** |
| *% of GDP* | *18.4%* | *18.4%* | *19.5%* | *20.7%* | *21.8%* | *22.9%* | *24.0%* |
| Tax Revenues | 4,139 | 4,136 | 4,402 | 4,668 | 4,934 | 5,200 | 5,466 |
| Oil Revenues | 2,399 | 2,395 | 2,661 | 2,928 | 3,194 | 3,460 | 3,726 |
| *% of Total Tax Revenues* | *58.0%* | *57.9%* | *60.5%* | *62.7%* | *64.7%* | *66.5%* | *68.2%* |
| Change in Revenues vs. 2018 Budget | | *-0.1%* | *6.0%* | *12.0%* | *18.0%* | *24.1%* | *30.1%* |
| Non-oil Revenues | 1,740 | 1,740 | 1,740 | 1,740 | 1,740 | 1,740 | 1,740 |
| Non-tax Revenues | 265 | 265 | 265 | 265 | 265 | 265 | 265 |
| Scenario 1 (Oil Tax Rate of 35.0% ): | | | | | | | |
| **Primary Fiscal Balance** | **214** | **-322** | **-115** | **92** | **299** | **506** | **713** |
| *% of GDP* | *0.9%* | *-1.3%* | *-0.5%* | *0.4%* | *1.3%* | *2.1%* | *3.0%* |
| Overall Fiscal Balance | -725 | -1,261 | -1,054 | -847 | -640 | -433 | -226 |
| *% of GDP* | *-3.0%* | *-5.3%* | *-4.4%* | *-3.5%* | *-2.7%* | *-1.8%* | *-0.9%* |
| Scenario 2 (Oil Tax Rate of 37.5% ): | | | | | | | |
| **Primary Fiscal Balance** | **214** | **-189** | **33** | **255** | **476** | **698** | **920** |
| *% of GDP* | *0.9%* | *-0.8%* | *0.1%* | *1.1%* | *2.0%* | *2.9%* | *3.9%* |
| Overall Fiscal Balance | -725 | -1,128 | -906 | -684 | -462 | -241 | -19 |
| *% of GDP* | *-3.0%* | *-4.7%* | *-3.8%* | *-2.9%* | *-1.9%* | *-1.0%* | *-0.1%* |
| Scenario 3 (Oil Tax Rate of 40.6% ): | | | | | | | |
| **Primary Fiscal Balance** | **214** | **-26** | **214** | **454** | **694** | **934** | **1,174** |
| *% of GDP* | *0.9%* | *-0.1%* | *0.9%* | *1.9%* | *2.9%* | *3.9%* | *4.9%* |
| Overall Fiscal Balance | -725 | -965 | -725 | -485 | -245 | -5 | 235 |
| *% of GDP* | *-3.0%* | *-4.0%* | *-3.0%* | *-2.0%* | *-1.0%* | *0.0%* | *1.0%* |
| Scenario 4 (Oil Tax Rate of 42.5% ): | | | | | | | |
| **Primary Fiscal Balance** | **214** | **77** | **328** | **580** | **831** | **1,083** | **1,334** |
| *% of GDP* | *0.9%* | *0.3%* | *1.4%* | *2.4%* | *3.5%* | *4.5%* | *5.6%* |
| Overall Fiscal Balance | -725 | -862 | -610 | -359 | -108 | 144 | 395 |
| *% of GDP* | *-3.0%* | *-3.6%* | *-2.6%* | *-1.5%* | *-0.5%* | *0.6%* | *1.7%* |
| Scenario 5 (Oil Tax Rate of 45.0% ): | | | | | | | |
| **Primary Fiscal Balance** | **214** | **210** | **476** | **742** | **1,009** | **1,275** | **1,541** |
| *% of GDP* | *0.9%* | *0.9%* | *2.0%* | *3.1%* | *4.2%* | *5.3%* | *6.5%* |
| Overall Fiscal Balance | -725 | -729 | -462 | -196 | 70 | 336 | 602 |
| *% of GDP* | *-3.0%* | *-3.1%* | *-1.9%* | *-0.8%* | *0.3%* | *1.4%* | *2.5%* |

Sources: Angolan authorities and Eaglestone Securities.

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## Disclosures

Eaglestone was founded in December 2011 with the aim to be a committed partner for the development of businesses located primarily in Sub-Saharan Africa and to support the development of renewable energy projects on a global basis.

The company has three business activities - financial advisory services, asset management and brokerage - and currently has offices in Amsterdam, Cape Town London, Lisbon, Luanda and Maputo

Eaglestone is committed to operating and behaving according to the highest standards of corporate governance. Its subsidiary in the United Kingdom is authorized and regulated by the Financial Conduct Authority.

Eaglestone operates with a clear vision and mission to act on behalf of and in the best interests of all its stakeholders, whether they are investors, employees or users of its services.

**EAGLESTONE SECURITIES**

**Business Intelligence**
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