The Angolan Economy

Turning the Corner

Research
January 2019

Economics
Tiago Bossa Dionísio
(+351) 964 643 530
tiago.dionisio@eaglestone.eu

Growth remained negative in 2018

The Angolan economy likely contracted for a third straight year in 2018 mainly due to a sharp decline in oil and gas production that reflect recent underinvestment in the sector. Inflation benefitted from persistently tight monetary conditions, slowing to c20% (from 30% in 2017). This despite a sharp depreciation of the kwanza and the impact of the adjustments in some administered prices. Meanwhile, higher oil prices more than offset lower production, lifting export receipts and helping to shift the current account back into a surplus. It also meant that oil revenues clearly exceeded initial projections and contributed to the government likely reaching a fiscal surplus. Moreover, the introduction of a new exchange rate regime allowed the spread of the official and parallel exchange rates to narrow to 20-25% (from 150% at end-2017).

Three-year arrangement with the IMF

Angola recently secured a three-year arrangement with the IMF under an Extended Fund Facility. The program mainly aims to (1) support the implementation of the government's reform plan, (2) help restore external and fiscal sustainability and (3) promote economic diversification. It also consists of a financial aid package of US$ 3.7 billion for the three years, with US$ 990.7 million to be immediately made available. The program's key policy commitments include (1) the implementation of fiscal consolidation measures in order to bring the debt-to-GDP ratio close to a target of 65%, (2) the liberalization of the exchange rate regime, (3) strengthening the local financial sector and (4) improving governance and business environment.

More favorable outlook for 2019-21

The IMF program is expected to help the Angolan economy recover in the next three years. Real GDP is projected to advance 2.5% this year and 3.2% in 2020-21, more in line with population growth in the country. An improvement in activity in the oil sector, as new oil fields come on stream (namely from Chevron, Eni and Total), is expected to boost growth in the next few years, while the implementation of reforms to bolster business environment should lead to a stronger pickup in activity in the non-oil sector. A combination of tighter monetary and fiscal policies will also aim to keep inflation levels on a downward path. That said, monetary policy should remain supportive of much needed economic growth. On the fiscal front, a continued fiscal retrenchment will help reduce the public debt burden from above 90% of GDP in 2018 to a level more in line with the 65% target during the forecast period.

Correcting imbalances and preparing the future

With the assistance of the IMF program, the local authorities are expected to remain highly committed to addressing the country's current imbalances. A Macroeconomic Stabilization Program has helped strengthen fiscal accounts, lower inflation, reduce distortions in the FX market and is expected to improve financial sector stability. On the latter, we note that the BNA recently revoked the licenses of two banks after they failed to comply with more demanding capital requirements. The central bank is also expected to carry out asset quality reviews of local banks, which could lead to the recapitalization of weaker players and/or M&A. Meanwhile, the government hopes the implementation of a National Development Plan for 2018-22 aimed at tackling structural bottlenecks and promoting economic diversification and inclusive growth will help the economy exit this prolonged recession. It remains to be seen if 2019 will be the year when Angolan turns the corner and economic growth returns.

ECONOMIC ACTIVITY AND INFLATION

Angola has been in a recession since 2016

The latest forecasts suggest that Angola will see its third consecutive year of recession in 2018. Economic activity is expected to have contracted 1.7% last year after falling 0.1% in 2017 and 2.6% in 2016. The current downturn in activity has been mostly led by the sharp contraction in the oil industry in recent years. It followed the freefall in oil prices since the second half of 2014 and has had major repercussions in the country's fiscal and external accounts, foreign exchange market and real economy.

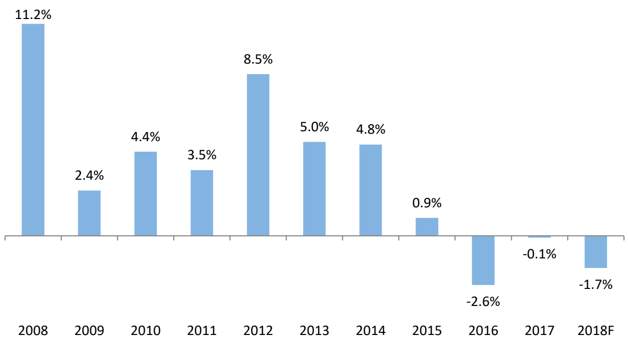
Lower oil prices have had a major impact across the board

In particular, this lower oil price environment had a major impact on: (1) oil related exports and fiscal receipts, (2) inflation, which in 2016 surged to levels unseen since 2004 and reduced the purchasing power of a large part of the local population; (3) the 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.

Activity in the non-oil sector has recovered in the last couple of years

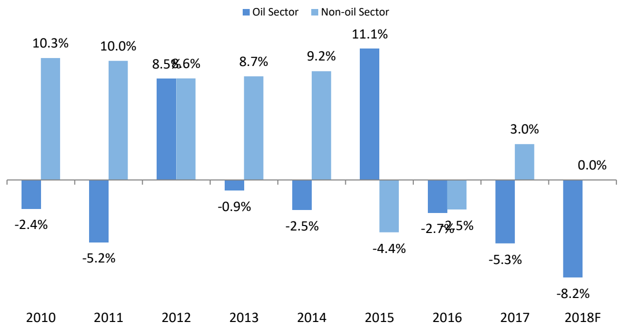
Activity in the non-oil sector was also initially impacted by the lower oil prices, falling 4.4% in 2015 and 2.5% in 2016. However, it recently recouped in the last couple of years thanks to an improved performance in the construction, agriculture and retail sectors.

REAL GDP GROWTH (2008-18F)



Sources: INE and IMF.

REAL GDP GROWTH BY SECTOR (2010-18F)

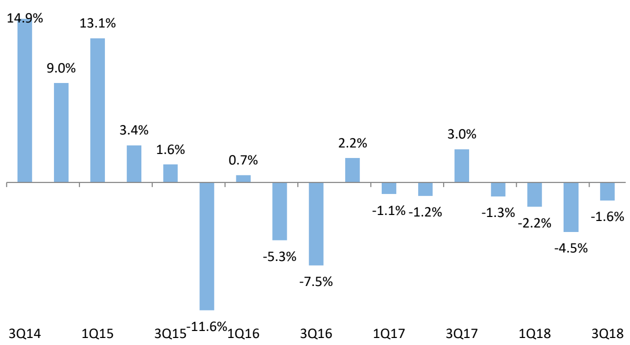


Sources: INE and IMF.

Real GDP contracted by 2.7% YoY in 9M 2018 after falling 6% in the first half of the year

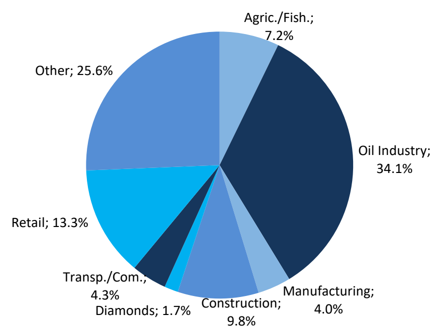
The most recent figures disclosed by the National Statistics Institute (INE) show that real GDP contracted by 2.7% in the first nine months of 2018 from a year earlier. The oil industry, which still represents over a third of the country's GDP, recorded a contraction of 8.7% in the period. Activity in the agriculture, manufacturing, construction and retail sectors all declined in the period until September. It is worth noting that the pace of the current downturn is slowing though after economic activity fell by 6% in the first half of the year.

REAL GDP GROWTH (YOY; 3Q14 – 3Q18)



Source: INE.

GDP STRUCTURE (9M 2018)



Source: INE.

Annual inflation stood at 18.6% at end-2018

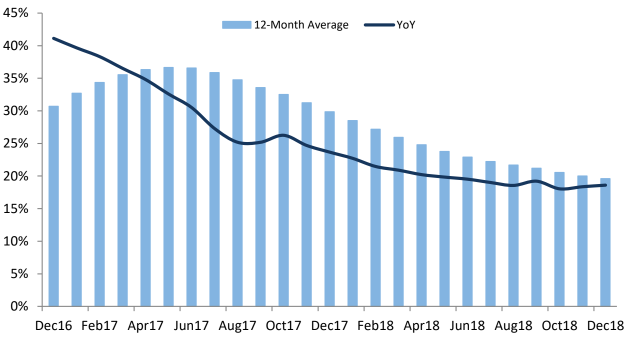
Meanwhile, the INE also announced that annual inflation stood at 18.6% in December 2018, standing near the government's latest forecast of 18%, but clearly below its initial projection of

28.8% made in the 2018 budget. This figure also compares with 23.67% recorded in December 2017. Data released by the INE also showed that the 12-month average inflation rate declined further to 19.61% last month (vs. 29.86% in December 2017).

The inflation rate has kept a downward trajectory from a peak above 40% at end-2016

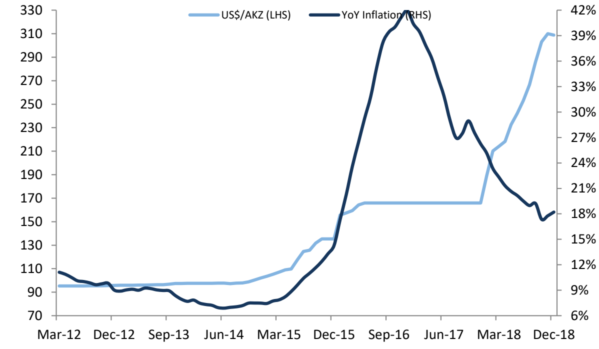
Despite small increases in the last three months of 2018, the inflation rate has kept a downward trajectory from a peak above 40% at the end of 2016. Recall that inflation reached multi-year highs at the time due to a gradual elimination of fuel subsidies and a significant depreciation of the kwanza. More recently, inflation levels have been more contained, reflecting for the most part a persistently tight monetary policy adopted by the central bank and the implementation of price control measures for some goods.

ANNUAL AND 12-MONTH AVERAGE INFLATION



Source: INE.

KWANZA EXCHANGE RATE AND ANNUAL INFLATION



Sources: BNA and INE.

MONETARY POLICY

The introduction of a new FX regime in early-2018 led to a sharp (but gradual) depreciation of the kwanza

The Banco Nacional de Angola (BNA), the central bank, introduced a new foreign exchange regime at the beginning of 2018. It states that the kwanza will fluctuate within a range against the euro determined at central bank currency auctions and that the other exchange rates will result from how the euro trades against those currencies. The introduction of this new regime led to a sharp (but gradual) depreciation of the kwanza throughout the year. It meant that, at the end of 2018, the local currency traded at near 308.6 against the US$ and 353 against the EUR, corresponding to a depreciation of slightly more than 45% against both currencies.

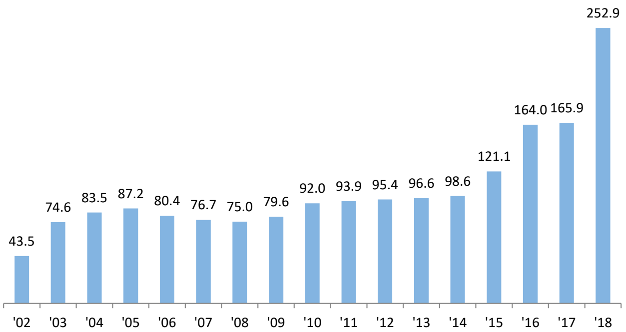
The average exchange rate of the kwanza depreciated nearly 35% in 2018

The kwanza exchange rate has recently stabilized at these levels. Overall, the average exchange rate of the US$/AKZ and the EUR/AKZ stood at 252.9 and 297, respectively, in 2018. This represents a depreciation of about 35% from the average levels of the previous year.

The gap in the FX rate in the parallel and official markets has declined to about 20-25%

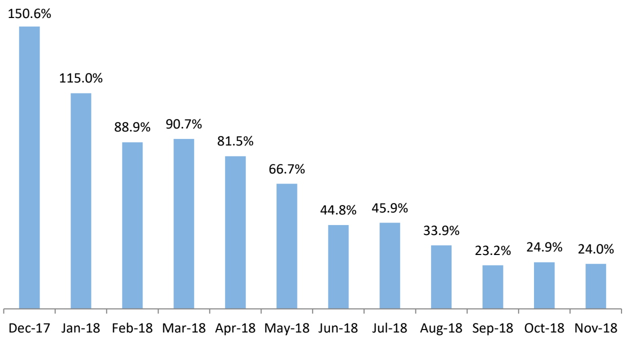
Meanwhile, the gap in the exchange rate quoted in the parallel and official markets has clearly diminished in recent months. The latest central bank data showed that this gap has narrowed from 150% at the end of 2017 (from a peak above 180%) to about 20-25%. This is due to the greater availability of foreign currency from the BNA and commercial banks as well as the lower demand for foreign currency under the new exchange rate regime.

AVERAGE ANNUAL EXCHANGE RATE (US$/AKZ)



Source: BNA.

GAP FOR PARALLEL AND OFFICAL MARKETS (US$/AKZ)



Source: BNA.

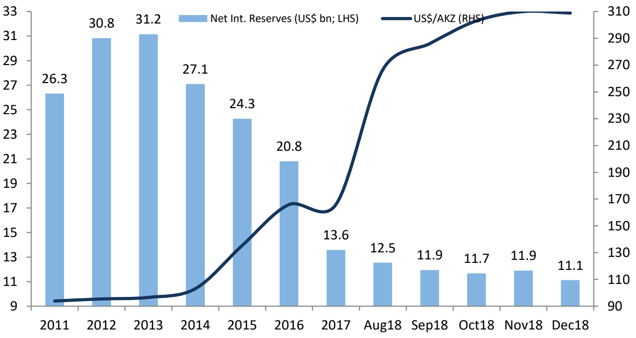
Foreign reserves at the central bank have fallen significantly since the end of 2013

In recent years, the BNA has had to intervene in the foreign exchange market in order to defend the kwanza. This has been reflected in the level of international reserves at the central bank, which fell from US$ 31.2 billion in 2013 (before the start of the oil crisis) to the current level of around US$ 11 billion.

The central bank has been able to gradually increase the amount of FX currency sold to commercial banks

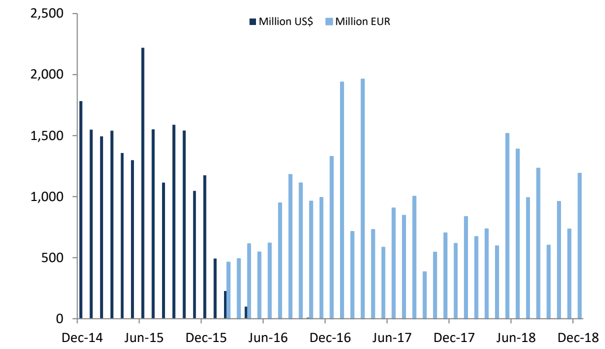
Conditions in the foreign exchange market have improved in recent months following a period of tight restrictions in this market that led to the aforementioned widening of the gap between the official exchange rate and the parallel market rate. This has allowed the BNA to gradually increase the amount of foreign currency sold to commercial banks directly or through auctions. Still, central bank data shows that the euro is the only foreign currency being sold at its weekly auctions since October 2016. It also showed that slightly more than half of the currency sold is allocated to "diverse sectors", 10% to the acquisition of food items and 7% to travel, family aid and healthcare.

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



Source: BNA.

MONTHLY FX SALES TO COMMERCIAL BANKS

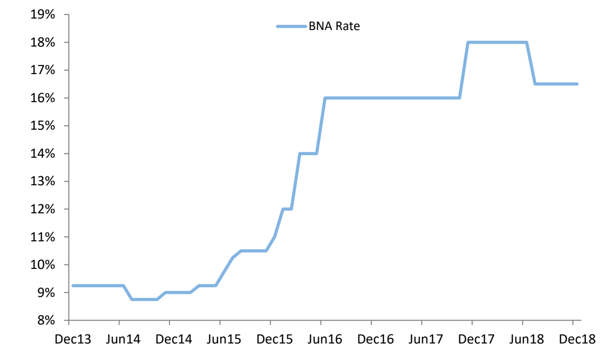


Source: BNA.

The BNA has lowered interest rates in July after inflation levels receded in recent months

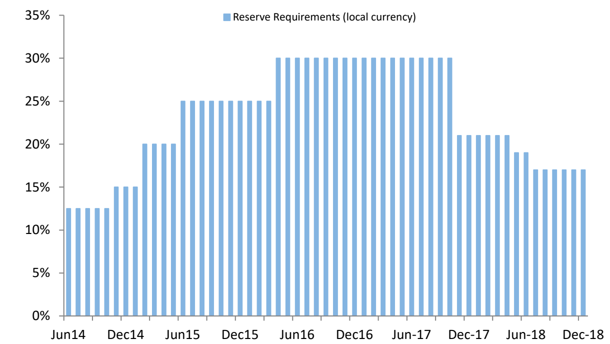
The central bank significantly tightened liquidity conditions and raised the BNA rate by 925bps (in a total of ten rate increases) since the end of 2014 in order to contain the depreciation of the kwanza and its subsequent impact on inflation levels. As a result, the BNA rate peaked at 18%, a multi-year high, in November 2017. The BNA also increased the banks' mandatory reserve requirements in local currency three times since the end of 2014, lifting the required level from 15% to 30%. Inflation levels gradually receded in 2018, which has allowed the central bank to lower interest rates by 150bps (to 16.5%) in July. It also lowered reserve requirements in local currency since the end of 2017, with these now standing at 17%.

EVOLUTION OF THE BNA RATE



Source: BNA.

RESERVE REQUIREMENTS IN LOCAL CURRENCY



Source: BNA.

EXTERNAL ACCOUNTS

Angola recorded a current account surplus in the first half of 2018 after a deficit in the homologous period

The BNA's latest reported balance of payments data relates to the first half of 2018. It showed a surplus in the current account balance of US$ 5,228 million (8.4% of GDP), which compares with a deficit of US$ 1,725 million (-3.0% of GDP) in the homologous period. This evolution was mostly due to a significant improvement in the trade surplus in the first two quarters of the year (+42.9% YoY) and reflects the impact of much stronger export receipts, namely from the oil sector. Indeed, Angola benefitted from higher average oil prices, as these reached US$ 67.9 per barrel in the first half of 2018 (vs. US$ 51.8 a year earlier). This positive price effect more than offset lower oil production and exports in the period (exports fell to 273.9 million barrels from 294.6 million in the first half of 2017).

Exports and imports represented 32.6% and 11.9% of GDP, respectively

On the other hand, imports advanced at a moderate pace of 5.7% YoY in the period, reflecting in part the current contraction in economic activity in the country. Overall, exports and imports represented 32.6% and 11.9% of GDP, respectively. We note the more favorable contribution from exports in the period (as a percentage of GDP) while the level of imports remained fairly unchanged from a year earlier.

BALANCE OF PAYMENTS										YoY Chg
US$ Million	2014	2015	2016	2017	1H 2017	1H 2018	2015/14	2016/15	2017/16	1H18/1H17
Current Account	-3,748	-10,273	-3,085	-633	-1,725	5,228	174.1%	-70.0%	-79.5%	n.m.
Trade Balance	30,590	12,489	14,548	20,150	9,072	12,963	-59.2%	16.5%	38.5%	42.9%
Exports, f.o.b.	59,170	33,181	27,589	34,613	16,086	20,380	-43.9%	-16.9%	25.5%	26.7%
Oil Sector	57,642	31,895	26,366	33,312	15,428	19,763	-44.7%	-17.3%	26.3%	28.1%
Other	1,528	1,286	1,223	1,301	658	617	-15.8%	-4.9%	6.4%	-6.3%
Imports, f.o.b.	-28,580	-20,693	-13,040	-14,463	-7,014	-7,417	-27.6%	-37.0%	10.9%	5.7%
Services Balance	-23,276	-16,020	-11,906	-12,809	-6,733	-4,131	-31.2%	-25.7%	7.6%	-38.6%
Income Balance	-11,061	-6,741	-5,728	-7,974	-4,064	-3,604	-39.1%	-15.0%	39.2%	-11.3%
Capital Account Balance	2	6	1	3	3	3	282.0%	-90.6%	344.9%	11.8%
Financial Account Balance	-3,434	-9,957	-4,889	-749	-4,024	7,207	190.0%	-50.9%	-84.7%	n.m.
Net Foreign Direct Investment	-2,331	8,235	-453	-8,749	-3,516	-3,047	n.m.	n.m.	1833.5%	-13.3%
Net Errors and Omissions	312	310	-1,805	-118	-2,302	1,976	-0.8%	n.m.	-93.4%	n.m.
Values as a % of GDP (1):										
Current Account	-2.6%	-8.8%	-3.1%	-0.5%	-3.0%	8.4%				
Trade Balance	21.0%	10.7%	14.4%	16.5%	15.7%	20.7%				
Exports	40.6%	28.6%	27.3%	28.3%	27.8%	32.6%				
Imports	19.6%	17.8%	12.9%	11.8%	12.1%	11.9%				
Services Balance	-16.0%	-13.8%	-11.8%	-10.5%	-11.6%	-6.6%				
Income Balance	-7.6%	-5.8%	-5.7%	-6.5%	-7.0%	-5.8%				
Financial Account Balance	-2.4%	-8.6%	-4.8%	-0.6%	-7.0%	11.5%				
Net Foreign Direct Investment	-1.6%	7.1%	-0.4%	-7.2%	-6.1%	-4.9%				

Sources: BNA, IMF and Eaglestone Securities.

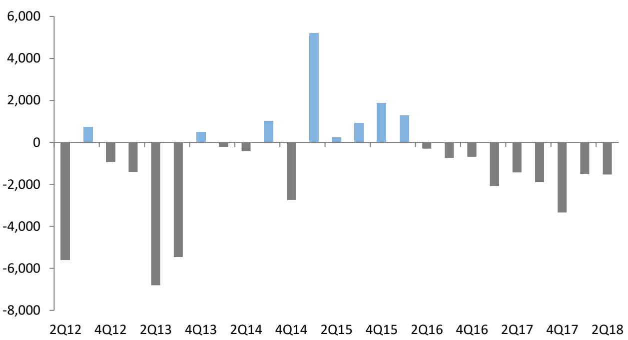
Net FDI stabilized in the first two quarters of 2018

Meanwhile, net foreign direct investment (FDI) in Angola stabilized in the first two quarters at about US$ 1,500 million, totaling US$ 3,047 million in the first half of the year. This is 13.3% less than in the same period of 2017 and corresponds to 4.9% of GDP (vs. 6.1% in 1H 2017).

Almost all of the FDI inflows and outflows relate to the oil sector

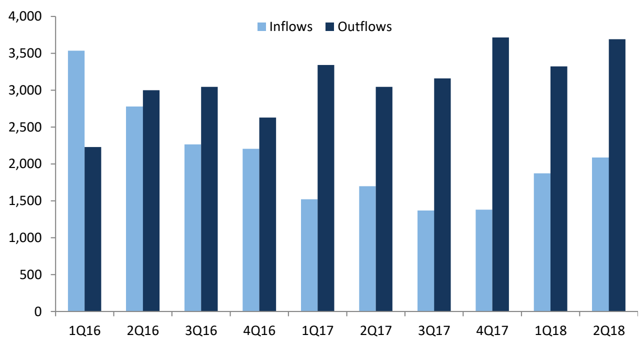
In particular, FDI inflows reached US$ 4,137 million in the period (+23.3% YoY), with 95.6% of this amount allocated to the oil sector. On the other hand, outflows amounted to US$ 7,184 million, advancing 4.6% YoY (97.6% relates to the oil sector). This is significantly higher than the 93% recorded in the first half of 2017 and is due to the improvement in oil prices last year.

NET FOREIGN DIRECT INVESTMENT (US$ MILLION)



Source: BNA.

FOREIGN DIRECT INVESTMENT OIL SECTOR (US$ MILLION)



Source: BNA.

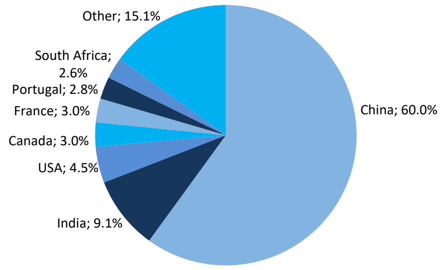
China accounted for 60% of Angola's oil exports

Other data released by the BNA showed that China accounted for 60% of Angola's oil exports in the first half of 2018, with India being the country's second exporting market with 9.1% of total oil exports. We also note the significant increase in exports to several other countries such as the US, France and Portugal. These countries represented 4.5%, 3.0% and 2.8% of total oil exports, respectively.

Moreover, China was Angola's main supplier in the first half of the year, accounting for 14.6% of total imports, followed by Portugal with 14%. It is worth noting that Chinese imports surged nearly 33% YoY while imports from Portugal declined 10.7% YoY in the period.

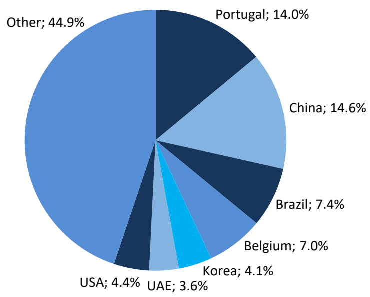
China was Angola's main supplier after imports rose by nearly 33% YoY

EXPORTS BY COUNTRY (1H 2018)



Sources: BNA and Eaglestone Securities.

IMPORTS BY COUNTRY (1H 2018)

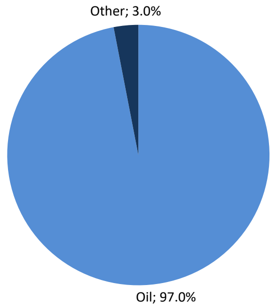


Sources: BNA and Eaglestone Securities.

In terms of products, oil continued to represent nearly all of the country's exports, accounting for 97% of the total. This compares with 95.9% in the first six months of 2017. The breakdown of imports by products was more evenly balanced. Machinery and electrical equipment as well as petroleum represented just over a fifth of the total imports while foods accounted for 15.5%.

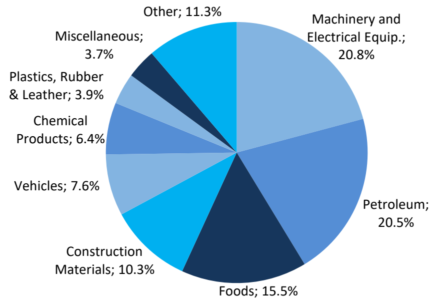
Oil represented 97% of Angola's total exports in the first half of 2018 (vs. 95.9% a year earlier)

EXPORTS BY PRODUCT (1H 2018)



Sources: BNA and Eaglestone Securities.

IMPORTS BY PRODUCT (1H 2018)



Sources: BNA and Eaglestone Securities.

FISCAL ACCOUNTS (2018)

The Angolan government recently stated that it anticipates to reach a fiscal surplus of AKZ 175 billion (0.6% of GDP) in 2018, as a significantly larger than previously forecasted contribution from revenues more than offsets slightly higher expenditures in the period. The revised fiscal balance projection compares with an earlier forecast for a deficit of AKZ 805 billion (-3.4% of GDP) included in the initial budget proposal. If confirmed, it would be the first time since 2012 that Angola achieves a fiscal surplus.

The government expects to achieve a fiscal surplus in 2018

The new revenue projection for 2018 assumes a much larger contribution from oil tax receipts (+62% deviation) than previously anticipated. This is due to a revised average oil price forecast of US$ 71.9 per barrel for 2018 that follows a much better oil price evolution since the start of the year. Recall that the initial budget proposal included an oil price projection of US$ 50. This pricing effect is expected to more than offset the impact from lower oil production in the year, namely 1.52 million barrels per day (bpd) (vs. 1.70 million bpd expected earlier).

The new budget projections include a much higher contribution from revenues namely oil tax related

Meanwhile, the government's revised forecasts for 2018 assume that interest expenditures will be materially higher than previously expected. This is the result of the surge in the country's debt levels in recent years, which have risen well above the 60% of GDP debt ceiling from just over 20% of GDP in 2012.

It also includes higher than initially expected spending on interest payments

GOVERNMENT ACCOUNTS AKZ BILLION	2018 Budget	2018 Forecast	Forecast vs. Budget
Revenues	**4,404**	**5,625**	**27.7%**
% of GDP	*18.4%*	*19.9%*	
Tax Revenues	4,139	5,257	27.0%
Oil Revenues	2,399	3,886	62.0%
Non-oil Revenues	1,740	1,372	-21.2%
Of which: Income Taxes	834	834	0.0%
Non-tax Revenues	265	368	38.8%
Expenditures	**5,209**	**5,450**	**4.6%**
% of GDP	*21.8%*	*19.3%*	
Current Expenditures	4,230	4,370	3.3%
Wages	1,690	1,692	0.1%
Goods and Services	972	972	0.0%
Interests	968	1,182	22.1%
Transfers	600	524	-12.6%
Capital Expenditure	979	1,080	10.3%
Public Investment	939	939	0.0%
Primary Fiscal Balance	**164**	**1,357**	**729.6%**
% of GDP	*0.7%*	*4.8%*	
Overall Fiscal Balance	**-805**	**175**	**n.m.**
% of GDP	*-3.4%*	*0.6%*	

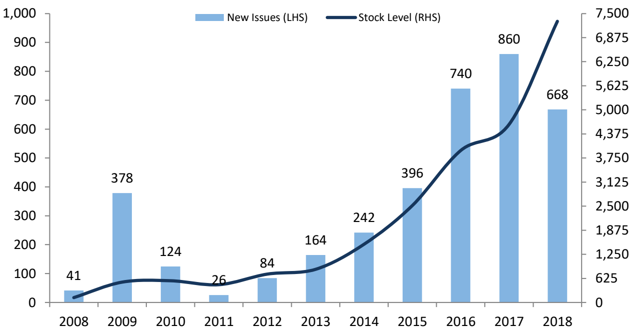
Sources: Angolan authorities and Eaglestone Securities.

We highlight the latest figures released by the BNA that show the issuance of government debt instruments rising significantly in recent years particularly in the period following the start of the oil crisis (2015-17). Specifically, the amount of treasury notes issued peaked at AKZ 860 billion in 2017 before reaching AKZ 668 billion last year while treasury bills issued reached AKZ 1,709 billion in 2017 and declined to AKZ 652 billion last year. This compares with AKZ 164 billion and AKZ 306 billion, respectively, issued in 2013.

The amount of government debt instruments issued in recent years has increased significantly

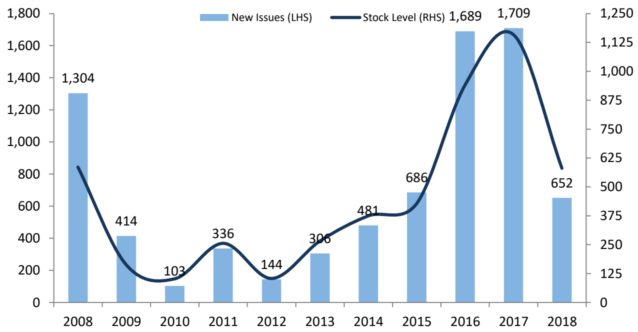
After the amortization of part of these instruments, the total stock level of treasury notes stood at AKZ 7,298 billion and the stock of treasury bills stood at AKZ 581 billion at the end of last year.

TREASURY NOTES ISSUANCE (AKZ BILLION)



Source: BNA.

TREASURY BILLS ISSUANCE (AKZ BILLION)



Source: BNA.

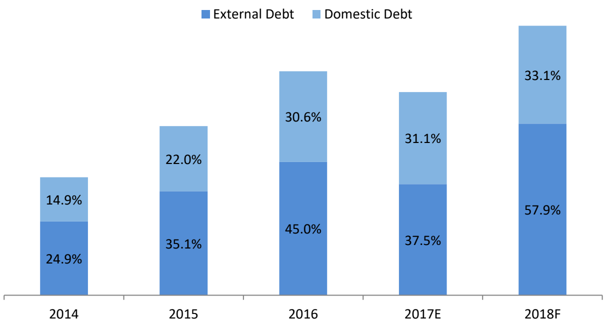
Overall, the IMF predicts that Angola's total public debt reached US$ 75.5 billion at the end of 2018, representing 91% of GDP. This amount includes debt of the central government, external debt of state oil company Sonangol and state airline company TAAG and guaranteed debt. The data in the table below was compiled from the IMF's latest report on Angola (dated December 2018) and clearly shows the significant increase in public debt levels in recent years.

The IMF forecasts that total public debt reached 91% of GDP in 2018

ANGOLA PUBLIC DEBT (1)	2014	2015	2016	2017E	2018F
Total Public Debt (US$ Billion)	**55.4**	**58.9**	**75.5**	**83.7**	**75.5**
Short-term	4.0	3.3	5.8	7.1	1.6
Medium and long-term	51.4	55.6	69.7	76.6	73.9
Domestic	20.8	22.7	30.6	37.9	27.5
Short-term	3.9	3.2	5.7	7.0	1.5
Medium and long-term	16.8	19.5	24.9	30.9	26.0
External	34.7	36.2	44.9	45.8	48.0
Short-term	0.1	0.1	0.1	0.1	0.1
Medium and long-term	34.6	36.1	44.8	45.7	47.9
Of which Sonangol	15.2	12.9	9.4	4.9	5.0
Total Public Debt (% of GDP)	**39.8%**	**57.1%**	**75.7%**	**68.5%**	**91.0%**

(1) Includes debt of Central Government, external debt of Sonangol and TAAG and guaranteed.
Sources: Angolan authorities and IMF.

ANGOLA PUBLIC DEBT (% OF GDP)



Sources: Angolan authorities and IMF.

BUDGET (2019)

The government expects real GDP growth of 2.8% in 2019 (vs. -1.1% in 2018)

The macroeconomic projections included in the 2019 budget recently approved by parliament suggest that the economic recession of the past three years (2016-18) will end in 2019. The government forecasts that real GDP will expand by 2.8% (from an expected contraction of 1.1% in 2018) as the oil and gas sector recoups from a very weak performance in the recent past and activity in the non-oil sector advances a slightly faster pace. In particular, the sectors that are expected to see a more marked improvement include the extractive industry and agriculture, as detailed below.

ECONOMIC ACTIVITY	2016	2017	2018 (1)	2019 (2)
Real GDP Growth	**-2.6%**	**-0.1%**	**-1.1%**	**2.8%**
- Oil and Gas	-2.7%	-5.3%	-8.2%	3.1%
Oil	-2.7%	-5.3%	-6.9%	3.0%
Gas	0.0%	0.0%	-25.4%	4.1%
- Non-oil	-2.5%	1.2%	1.0%	2.6%
Agriculture	1.8%	1.4%	3.1%	6.8%
Fishing	7.5%	-1.1%	1.3%	3.0%
Extractive Industry	0.0%	-0.8%	0.8%	15.5%
Manufacturing	11.6%	1.2%	0.1%	2.1%
Construction	2.5%	2.5%	2.1%	2.0%
Energy	8.8%	-1.7%	30.0%	0.0%
Commerce	-5.2%	1.5%	1.0%	1.4%
Other	-16.5%	0.3%	2.0%	2.0%
Nominal GDP (AKZ billion)	**16,549.6**	**20,262.3**	**28,212.3**	**34,807.7**
- Non-oil	13,093.1	16,022.3	19,464.1	23,032.8

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

Oil production is expected to increase, as France's Total started producing oil at the Kaombo area

The 2019 budget also assumes that average daily oil production will increase to 1.570 million barrels (from a revised estimate of 1.524 million bpd in 2018) and that oil prices will average US$ 68 (vs. US$ 71.9 in 2018). We note that France's Total announced last year that it had started oil production at the Kaombo area, which is currently Angola's biggest deepwater offshore development. Total and its partners are reportedly expected to produce an estimated 115,000 bpd.

Inflation is forecasted to maintain its downward trend in 2019

Meanwhile, inflation is expected to continue its downward trend going forward and reach 15% in the period. This compares with a revised forecast of 18% for 2018 that is much lower than the 28.8% projected in the initial budget. Consumer prices are expected to remain contained due to a persistently tight monetary policy followed by the central bank and also some stabilization in the kwanza exchange rate.

EAGLESTONE SECURITIES

ECONOMIC INDICATORS	2016	2017	2018 (1)	2018 (2)	2019 (1)
Inflation	41.1%	23.7%	28.8%	18.0%	15.0%
Diamond Production (Thousand Carats)	8,964.1	8,964.1	9,047.7	9,442.0	9,442.0
Diamond Average Price (US$/Carat)	118.0	115.1	124.2	141.1	141.1
Annual Oil and LNG Production	638.2	643.2	674.1	590.3	608.6
Oil Production (MBbl)	630.1	597.6	620.0	556.3	573.2
LNG Production (MBOE)	8.1	45.6	54.1	34.0	35.4
Average Oil Price (US$/Bbl)	40.9	53.9	50.0	71.9	68.0
Average LNG Price (US$/BOE)	29.0	29.0	29.0	29.0	29.0

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

In the budget, the government anticipates that total revenues and total expenditures will reach AKZ 7,424 billion and AKZ 6,918 billion, respectively. This is an increase of 32% in revenues and 26.9% in expenditures when compared with the 2018 year-end projections. Moreover, they are 68.6% and 32.8% higher than the 2018 budget estimates, respectively.

The government expects an increase of 32% in revenues and 26.9% in expenditures in 2019

The government's projections include a fiscal surplus of AKZ 506 billion in 2019 that follows an expected surplus of AKZ 175 billion for 2018. Moreover, the primary fiscal balance (which excludes interest payments) is expected to reach a surplus once again, as debt payments remain elevated in the period.

The budget foresees a fiscal surplus in 2019

In terms of revenues, the government foresees a surge of 33.8% YoY in tax revenues in 2019 and a more modest increase of 6.3% in non-tax receipts when compared with year-end 2018 projections. Tax revenues are expected to be boosted by much higher oil receipts, as higher oil production more than offsets a slightly lower oil price forecast for 2019 and also non-oil related income. Meanwhile, the increase in spending levels is expected to be mainly driven by higher current expenditures (28.2% YoY), including higher spending on goods and services, interest payments and transfers. It is also worth noting the continued recovery in capital expenditures, as they recoup to the level recorded in 2017.

Revenues are expected to be mainly boosted by higher oil receipts whereas the rise in expenditures reflect higher spending on goods and services, interests and transfers

GOVERNMENT ACCOUNTS AKZ BILLION	2016	2017	2018 (1)	2018 (2)	2019 (1)	Change 2018 (2) / 2017	2018 (2) / 2018 (1)	2019 (1) / 2018 (1)	2019 (1) / 2018 (2)
Revenues	**2,900**	**3,543**	**4,404**	**5,625**	**7,424**	**58.8%**	**27.7%**	**68.6%**	**32.0%**
Tax Revenues	2,599	3,203	4,139	5,257	7,033	64.1%	27.0%	69.9%	33.8%
Oil Revenues	1,373	2,009	2,399	3,886	5,319	93.4%	62.0%	121.7%	36.9%
Non-oil Revenues	1,227	1,194	1,740	1,372	1,714	14.9%	-21.2%	-1.5%	25.0%
Of which: Income Taxes	720	862	834	834	834	-3.3%	0.0%	0.0%	0.0%
Non-tax Revenues	301	340	265	368	391	8.1%	38.8%	47.6%	6.3%
Expenditures	**3,648**	**4,822**	**5,209**	**5,450**	**6,918**	**13.0%**	**4.6%**	**32.8%**	**26.9%**
Current Expenditures	3,003	3,499	4,230	4,370	5,604	24.9%	3.3%	32.5%	28.2%
Wages	1,397	1,507	1,690	1,692	1,796	12.2%	0.1%	6.3%	6.2%
Goods and Services	624	841	972	972	1,376	15.6%	0.0%	41.6%	41.6%
Interests	470	677	968	1,182	1,626	74.6%	22.1%	67.9%	37.6%
Transfers	512	474	600	524	805	10.6%	-12.6%	34.1%	53.5%
Capital Expenditure	645	1,323	979	1,080	1,314	-18.4%	10.3%	34.3%	21.7%
Public Investment	634	995	939	939	939	-5.6%	0.0%	0.0%	0.0%
Primary Fiscal Balance	**-278**	**-601**	**164**	**1,357**	**2,132**	**n.m.**	**729.6%**	**1203.4%**	**57.1%**
Overall Fiscal Balance	**-748**	**-1,279**	**-805**	**175**	**506**	**n.m.**	**n.m.**	**n.m.**	**189.1%**

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

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 declined in the period 2012-16 as a result of the significant drop in the contribution from oil revenues. More recently, the gradual increase in oil prices has led to a slight recovery in the contribution from oil receipts. Still, this remains well below the levels recorded in 2012.

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

The amount of expenditures as a percentage of GDP has also declined and is expected to stand at 19.9% in 2019 (slightly up from a forecast of 19.3% of GDP in 2018). Most notably, it is worth highlighting the marked decline in capital expenditures, which are only expected to represent 3.8% of GDP in 2019. 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 16% of GDP in 2019.

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

Overall, the 2019 budget foresees a budget surplus of 1.5% of GDP that follows a projected surplus of 0.6% for 2018. Recall that the initial 2018 budget proposal assumed that the local

The 2019 budget proposal assumes a fiscal surplus of 1.5% of GDP authorities would reach a budget deficit of 3.4% of GDP. The 2019 budget also assumes that the government will reach a primary surplus of 6.1% of GDP, which is higher than the 4.8% forecasted for 2018 and the 0.7% included in the 2018 budget proposal.

GOVERNMENT ACCOUNTS									% of GDP
	2012	2013	2014	2015	2016	2017	2018 (1)	2018 (2)	2019 (1)
Revenues	**46.5%**	**40.2%**	**35.3%**	**27.3%**	**17.4%**	**17.5%**	**18.4%**	**19.9%**	**21.3%**
Tax Revenues	44.4%	38.2%	32.9%	24.7%	15.6%	15.8%	17.3%	18.6%	20.2%
Oil Revenues	37.7%	30.1%	23.8%	15.4%	8.2%	9.9%	10.1%	13.8%	15.3%
Non-oil Revenues	6.6%	8.1%	9.1%	9.3%	7.4%	5.9%	7.3%	4.9%	4.9%
Of which: Income Taxes	3.0%	4.2%	4.4%	5.4%	4.3%	4.3%	3.5%	3.0%	2.4%
Non-tax Revenues	2.1%	2.0%	2.4%	2.6%	1.8%	1.7%	1.1%	1.3%	1.1%
Expenditures	**39.8%**	**39.9%**	**41.9%**	**30.6%**	**21.9%**	**23.8%**	**21.8%**	**19.3%**	**19.9%**
Current Expenditures	29.3%	28.5%	29.4%	24.7%	18.0%	17.3%	17.7%	15.5%	16.1%
Wages	9.5%	9.6%	10.6%	11.3%	8.4%	7.4%	7.1%	6.0%	5.2%
Goods and Services	11.9%	10.2%	10.0%	6.4%	3.7%	4.1%	4.1%	3.4%	4.0%
Interests	1.0%	0.8%	1.2%	2.0%	2.8%	3.3%	4.1%	4.2%	4.7%
Transfers	6.9%	7.9%	7.6%	5.0%	3.1%	2.3%	2.5%	1.9%	2.3%
Capital Expenditure	10.5%	11.4%	12.5%	6.0%	3.9%	6.5%	4.1%	3.8%	3.8%
Public Investment	10.5%	11.4%	12.4%	5.8%	3.8%	4.9%	3.9%	3.3%	2.7%
Primary Fiscal Balance	**7.6%**	**1.1%**	**-5.4%**	**-1.3%**	**-1.7%**	**-3.0%**	**0.7%**	**4.8%**	**6.1%**
Overall Fiscal Balance	**6.7%**	**0.3%**	**-6.6%**	**-3.3%**	**-4.5%**	**-6.3%**	**-3.4%**	**0.6%**	**1.5%**

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

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

The figures in the table below show that non-oil sector related taxes increased markedly during 2015-16. This reflects the dual 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. On the other hand, they also show that the government continues to allocate the largest share of its spending to pay the salaries of public sector workers. However, the figure that clearly stands out once again is the proportion of public spending to be allocated towards interest payments, which in 2019 is projected to reach 23.5% of the total (vs. 21.7% in 2018). This is a major increase compared with the figures of recent years. All in all, current expenditures are expected to represent 81% of total public spending in 2019.

GOVERNMENT ACCOUNTS									% of Total
	2012	2013	2014	2015	2016	2017	2018 (1)	2018 (2)	2019 (1)
Revenues									
Tax Revenues (Oil)	81.2%	74.9%	67.5%	56.4%	47.3%	56.7%	54.5%	69.1%	71.6%
Tax Revenues (Non-Oil)	14.3%	20.1%	25.6%	34.0%	42.3%	33.7%	39.5%	24.4%	23.1%
Non-tax Revenues	4.5%	5.1%	6.9%	9.6%	10.4%	9.6%	6.0%	6.5%	5.3%
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Expenditures									
Current Expenditures	73.6%	71.4%	70.2%	80.5%	82.3%	72.6%	81.2%	80.2%	81.0%
Wages	23.8%	24.0%	25.3%	36.8%	38.3%	31.3%	32.4%	31.0%	26.0%
Goods and Services	30.0%	25.5%	23.9%	20.9%	17.1%	17.4%	18.7%	17.8%	19.9%
Interests	2.4%	2.1%	2.8%	6.6%	12.9%	14.0%	18.6%	21.7%	23.5%
Transfers	17.4%	19.8%	18.2%	16.2%	14.0%	9.8%	11.5%	9.6%	11.6%
Capital Expenditure	26.4%	28.6%	29.8%	19.5%	17.7%	27.4%	18.8%	19.8%	19.0%
Total Expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

The government expects to significantly increase spending on healthcare and education in 2019

In terms of expenditures by sector, the government expects to spend AKZ 5,885 billion in 2019 if excluding spending on public debt operations. This is 27.6% more than what it forecasted in the 2018 budget proposal. Total expenditures are anticipated to increase 17.2% to AKZ 11,355 billion if including public debt operations. As detailed in the table below, planned spending on the social sector is forecasted to rise nearly 20% YoY, with spending on healthcare expected to more than double from 2018 and education rising 26.4% YoY. The government also plans to spend a lot more in the economic sector (68.4% YoY), namely in areas like transports, fuel and energy and agriculture. Finally, it plans to spend 7.5% more on defense, security and social order while spending on general public services and other is expected to recoup 31.9%.

EXPENDITURES BY SECTOR AKZ BILLION	2016	2017	2018	2019	Change 2017 / 2016	2018 / 2017	2019 / 2018
Social Sector	1,926	1,923	1,956	2,340	-0.1%	1.7%	19.6%
Education	456	500	524	662	9.6%	4.8%	26.4%
Health	303	318	352	750	4.8%	10.8%	113.1%
Social Protection	759	727	681	527	-4.2%	-6.3%	-22.7%
Housing	374	335	358	339	-10.3%	6.6%	-5.3%
Other	34	43	41	63	26.0%	-4.0%	52.1%
Economic Sector	854	900	764	1,287	5.3%	-15.1%	68.4%
Defense, Security and Social Order	930	989	975	1,049	6.4%	-1.4%	7.5%
General Public Services and Other	1,036	1,199	917	1,210	15.7%	-23.5%	31.9%
Total Expend. (Ex. Public Debt Operations)	**4,745**	**5,011**	**4,613**	**5,885**	**5.6%**	**-7.9%**	**27.6%**
Public Debt Operations	2,213	2,338	5,073	5,470	5.7%	116.9%	7.8%
Total Expenditures	**6,959**	**7,349**	**9,686**	**11,355**	**5.6%**	**31.8%**	**17.2%**

Sources: Angolan authorities and Eaglestone Securities.

A breakdown of expenditures by sector shows that the combined spending on education and healthcare is expected to surpass the amount of spending on defense and security for the first time in many years, indicating a clear shift in policy. Also, as highlighted above, the share of spending in the economic sector is expected to increase significantly, reaching 21.9% of the total expenditures foreseen in 2019.

The combined spending in education and healthcare is expected to surpass spending on defense and security in 2019

EXPENDITURES BY SECTOR	2013	2014	2015	2016	2017	2018	2019 % of Total
Social Sector	33.6%	30.0%	43.9%	40.6%	38.4%	42.4%	39.8%
Education	8.8%	6.2%	11.6%	9.6%	10.0%	11.4%	11.3%
Health	5.6%	4.3%	6.7%	6.4%	6.3%	7.6%	12.7%
Social Protection	11.1%	9.6%	17.5%	16.0%	14.5%	14.8%	8.9%
Housing	4.7%	7.9%	6.3%	7.9%	6.7%	7.8%	5.8%
Other	3.4%	2.0%	1.8%	0.7%	0.9%	0.9%	1.1%
Economic Sector	18.4%	19.6%	14.5%	18.0%	18.0%	16.6%	21.9%
Defense, Security and Social Order	17.7%	16.5%	21.0%	19.6%	19.7%	21.1%	17.8%
General Public Services and Other	30.4%	34.0%	20.7%	21.8%	23.9%	19.9%	20.6%
Total Expend. (Ex. Public Debt Operations)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Sources: Angolan authorities and Eaglestone Securities.

The government expects to finance its expenditures by relying more on fiscal revenues rather than on debt markets, which was the case in the 2018 budget proposal. Figures show that fiscal revenues are expected to account for nearly two-thirds of total receipts, with oil sector related taxes representing 46.8% of the total. These compare with 45.5% and 24.8%, respectively, in 2018.

The government expects to rely more on fiscal receipts, namely from the oil sector, to finance the 2019 budget

The local authorities anticipate using more than a third of the proceeds for debt amortization while 14.3% is expected to be used in interest payments. Also, 15% of the total proceeds are estimated to be used to pay the wages of public sector employees and 12.1% for spending on goods and services, as described below.

More than a third of total receipts is expected to be used for debt amortization

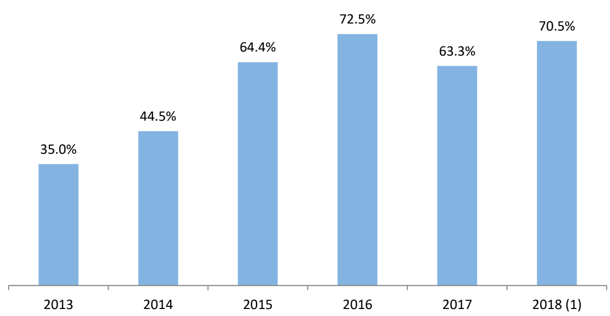
FINANCING (1)					% of Total				% of GDP			
AKZ BILLION	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
Receipts												
Fiscal Revenues	3,514	3,668	4,404	7,424	54.7%	49.6%	45.5%	65.4%	21.2%	18.1%	15.6%	21.3%
Taxes	3,235	3,404	4,139	7,033	50.3%	46.1%	42.7%	61.9%	19.5%	16.8%	14.7%	20.2%
Oil Sector	1,690	1,695	2,399	5,319	26.3%	22.9%	24.8%	46.8%	10.2%	8.4%	8.5%	15.3%
Non-oil Sector	1,545	1,709	1,740	1,714	24.0%	23.1%	18.0%	15.1%	9.3%	8.4%	6.2%	4.9%
Social Contributions	153	173	173	181	2.4%	2.3%	1.8%	1.6%	0.9%	0.9%	0.6%	0.5%
Other	127	91	92	210	2.0%	1.2%	1.0%	1.8%	0.8%	0.4%	0.3%	0.6%
Asset Sales	2	498	501	2	0.0%	6.7%	5.2%	0.0%	0.0%	2.5%	1.8%	0.0%
Financing	2,913	3,225	4,781	3,930	45.3%	43.6%	49.4%	34.6%	17.6%	15.9%	16.9%	11.3%
Domestic	1,395	1,660	2,821	1,934	21.7%	22.5%	29.1%	17.0%	8.4%	8.2%	10.0%	5.6%
International	1,518	1,564	1,959	1,996	23.6%	21.2%	20.2%	17.6%	9.2%	7.7%	6.9%	5.7%
Total Receipts	**6,429**	**7,390**	**9,686**	**11,355**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**38.8%**	**36.5%**	**34.3%**	**32.6%**
Expenditures												
Staff Costs	1,497	1,614	1,647	1,796	23.3%	21.8%	17.0%	15.8%	9.0%	8.0%	5.8%	5.2%
Wages	1,420	1,513	1,545	1,702	22.1%	20.5%	15.9%	15.0%	8.6%	7.5%	5.5%	4.9%
Goods and Services	995	1,035	975	1,376	15.5%	14.0%	10.1%	12.1%	6.0%	5.1%	3.5%	4.0%
Interests	307	484	968	1,626	4.8%	6.6%	10.0%	14.3%	1.9%	2.4%	3.4%	4.7%
Domestic	152	262	517	808	2.4%	3.5%	5.3%	7.1%	0.9%	1.3%	1.8%	2.3%
External	155	222	451	819	2.4%	3.0%	4.7%	7.2%	0.9%	1.1%	1.6%	2.4%
Transfers	680	680	600	805	10.6%	9.2%	6.2%	7.1%	4.1%	3.4%	2.1%	2.3%
Subsidies	370	292	225	275	5.8%	3.9%	2.3%	2.4%	2.2%	1.4%	0.8%	0.8%
Acquisition of Non-Fin. Assets	816	995	939	1,314	12.7%	13.5%	9.7%	11.6%	4.9%	4.9%	3.3%	3.8%
Debt Amortization	1,744	2,197	4,153	3,843	27.1%	29.7%	42.9%	33.8%	10.5%	10.8%	14.7%	11.0%
Domestic	1,284	1,622	1,394	1,758	20.0%	22.0%	14.4%	15.5%	7.8%	8.0%	4.9%	5.1%
External	459	575	2,759	2,085	7.1%	7.8%	28.5%	18.4%	2.8%	2.8%	9.8%	6.0%
Other Financial Investments	390	385	403	594	6.1%	5.2%	4.2%	5.2%	2.4%	1.9%	1.4%	1.7%
Total Expenditures	**6,429**	**7,390**	**9,686**	**11,355**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**38.8%**	**36.5%**	**34.3%**	**32.6%**

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

Meanwhile, data released in the 2019 budget showed that Angola's public debt likely returned to a level above 70% of GDP in 2018 after falling to 63.3% of GDP in the previous year. Returning the country's debt levels to a downward trajectory remains a key priority for the Angolan authorities. The government expects debt service payments to fall to AKZ 5,740 billion in 2019 after more than doubling in the previous year.

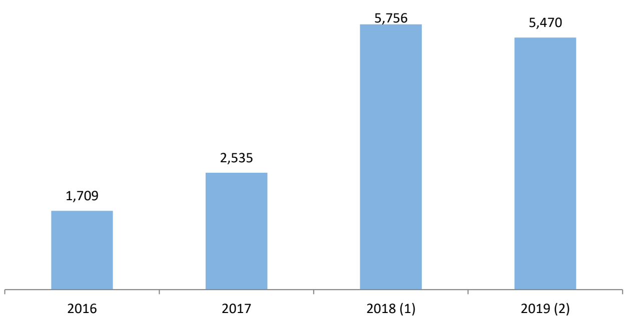
Public debt likely returned to a level above 70% of GDP in 2018

ANGOLAN PUBLIC DEBT (% OF GDP)



(1) Forecast. Source: Angolan authorities.

DEBT SERVICE PAYMENTS (AKZ BILLION)



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

SENSITIVITY ANALYSIS TO OIL PRICES

The majority of analysts' forecasts for the price of Brent crude oil suggest that the average oil price will stand between US$ 65 and US$ 75 per barrel in 2019. However, the evolution of oil prices is always very uncertain and dependent on several factors, namely related to geopolitics or the ones that can affect the balance between supply and demand in the market. These latter factors are particularly relevant in the current global environment. Specifically, the increasing elasticity of US shale production to the evolution of the price of oil has recently made the global supply of oil harder to predict for market participants. This could more easily affect the supply and demand balance at any given moment and, therefore, impact global 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

Oil had a very volatile 2018, with Brent prices increasing to a four-year high (above US$ 80) in October and then falling more than US$ 30 before the end of the year. Investor concerns about an oversupply and the risk to the demand outlook from a possible global economic slowdown were the main reasons behind oil's latest performance and remain the key themes to look for in

Oil prices could once again be rather volatile in 2019 the year ahead. In 2019, investors will also monitor closely the impact that the latest agreement between OPEC and its allies (including Russia) signed in early-December will have on helping to re-balance the global oil market and whether this will (as it did two years ago) contribute to lifting oil prices. Recall that this group of producers aims to cut oil production by 1.2 million barrels a day (from October 2018 levels) starting this January. Apart from OPEC+, the market will also watch at (1) how effective additional pressure from the US on those buyers of Iran crude will be, with the existing set of waivers expected to expire late in the second quarter (just after the next OPEC meeting) and (2) production levels in countries like Venezuela and Libya.

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 2019 budget.

Our sensitivity analysis considers an average oil price range of US$ 55-75 per barrel in 2019

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$ 55 and US$ 75 for 2019, which we consider reasonable bearing in mind current analysts' forecasts for the oil price mentioned above and an implied tax rate ranging from 37.5% to 47.5% based on the data collected. We also assume an average US$/AKZ exchange rate of 316.1 for the year to reflect an adjustment of 20% to exchange rate from the 2018 level, as we believe that the newly announced agreement between Angola and the IMF will lead to a gradual depreciation of the kwanza during the year. 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	2018 (1)	2018 (2)	2019 (1)
Oil Sector											
Annual oil production (million) (A)	641.5	605.9	631.9	626.3	610.2	648.5	630.1	597.6	620.0	556.3	573.2
Average daily oil production (million bpd)	1.76	1.66	1.73	1.72	1.67	1.78	1.73	1.64	1.70	1.52	1.57
Average oil price (US$ per barrel) (B)	77.9	110.1	111.6	107.7	96.9	53.7	40.9	53.9	50.0	71.9	68.0
Oil revenues (US$ million) = (A) x (B)	**49,969**	**66,710**	**70,520**	**67,453**	**59,125**	**34,824**	**25,771**	**32,211**	**31,000**	**39,998**	**38,978**
Exchange rate (US$/AKZ) (3)	91.1	94.0	95.4	96.6	98.3	120.1	164.0	165.9	165.9	252.9	316.1
Oil revenues (AKZ billion) (C)	**4,552**	**6,271**	**6,728**	**6,516**	**5,812**	**4,182**	**4,227**	**5,344**	**5,143**	**10,114**	**12,320**
Government Accounts											
Oil related tax revenues (AKZ billion) (D)	**2,500**	**3,817**	**4,103**	**3,630**	**2,970**	**1,898**	**1,373**	**2,009**	**2,399**	**3,886**	**5,319**
Implied tax rate (oil-related) = (D) / (C)	*54.9%*	*60.9%*	*61.0%*	*55.7%*	*51.1%*	*45.4%*	*32.5%*	*37.6%*	*46.6%*	*38.4%*	*43.2%*

(1) Budget Proposal; (2) Forecast; (3) We assume an adjustment of 20% to the US$/AKZ exchange rate in 2019. Sources: Angolan authorities and Eaglestone Securities.

If the average oil price reaches US$ 75 in 2019 then total revenues would be 7.4% higher than the government's current forecast

As an example, if the average oil price reaches US$ 75 in 2019 (vs. the existing forecast of the government of US$ 68) and assuming the same implied tax rate of 43.2% then total revenues would be 7.4% higher (or US$ 1,732 million) than the current budget forecast. On the other hand, if oil prices average US$ 60 then revenues would be 8.4% lower (or US$ 1,980 million) than the current projection.

TABLE 2: Change in Revenues vs Budget 2019

		Average Oil Price (US$)					
		55.0	60.0	65.0	68.0	70.0	75.0
Implied Tax Rate	37.5%	-21.3%	-16.7%	-12.2%	-9.4%	-7.6%	-3.0%
	40.0%	-18.0%	-13.1%	-8.2%	-5.3%	-3.3%	1.6%
	43.2%	-13.7%	-8.4%	-3.2%	0.0%	2.1%	7.4%
	45.0%	-11.2%	-5.8%	-0.3%	3.0%	5.2%	10.7%
	47.5%	-7.9%	-2.1%	3.7%	7.2%	9.5%	15.3%

Source: Eaglestone Securities.

TABLE 3: Change in Revenues vs Budget 2019

		Average Oil Price (US$)					
US$ million		55.0	60.0	65.0	68.0	70.0	75.0
Implied Tax Rate	37.5%	-5,007	-3,932	-2,857	-2,212	-1,782	-708
	40.0%	-4,218	-3,072	-1,926	-1,238	-779	367
	43.2%	-3,217	-1,980	-742	0	495	1,732
	45.0%	-2,642	-1,352	-63	711	1,227	2,517
	47.5%	-1,854	-493	869	1,685	2,230	3,591

Source: Eaglestone Securities.

TABLE 4 - GOVERNMENT ACCOUNTS		SENSITIVITY TO OIL PRICES (US$/BARREL)					
AKZ BILLION	2019 Budget	55.0	60.0	65.0	68.0	70.0	75.0
Scenario 1 (Oil Tax Rate of 37.5%):							
Revenues	**7,424**	**5,841**	**6,181**	**6,521**	**6,725**	**6,860**	**7,200**
% of GDP	*21.3%*	*16.8%*	*17.8%*	*18.7%*	*19.3%*	*19.7%*	*20.7%*
Tax Revenues	7,033	5,450	5,790	6,130	6,334	6,470	6,809
Oil Revenues	5,319	3,737	4,076	4,416	4,620	4,756	5,095
% of Total Tax Revenues	*75.6%*	*68.6%*	*70.4%*	*72.0%*	*72.9%*	*73.5%*	*74.8%*
Change in Revenues vs. 2019 Budget		*-21.3%*	*-16.7%*	*-12.2%*	*-9.4%*	*-7.6%*	*-3.0%*
Scenario 2 (Oil Tax Rate of 40.0%):							
Revenues	**7,424**	**6,090**	**6,453**	**6,815**	**7,033**	**7,177**	**7,540**
% of GDP	*21.3%*	*17.5%*	*18.5%*	*19.6%*	*20.2%*	*20.6%*	*21.7%*
Tax Revenues	7,033	5,700	6,062	6,424	6,642	6,787	7,149
Oil Revenues	5,319	3,986	4,348	4,710	4,928	5,073	5,435
% of Total Tax Revenues	*75.6%*	*69.9%*	*71.7%*	*73.3%*	*74.2%*	*74.7%*	*76.0%*
Change in Revenues vs. 2019 Budget		*-18.0%*	*-13.1%*	*-8.2%*	*-5.3%*	*-3.3%*	*1.6%*
Scenario 3 (Oil Tax Rate of 43.2%):							
Revenues	**7,424**	**6,407**	**6,798**	**7,189**	**7,424**	**7,580**	**7,971**
% of GDP	*21.3%*	*18.4%*	*19.5%*	*20.7%*	*21.3%*	*21.8%*	*22.9%*
Tax Revenues	7,033	6,016	6,407	6,798	7,033	7,189	7,580
Oil Revenues	5,319	4,302	4,693	5,084	5,319	5,476	5,867
% of Total Tax Revenues	*75.6%*	*71.5%*	*73.3%*	*74.8%*	*75.6%*	*76.2%*	*77.4%*
Change in Revenues vs. 2019 Budget		*-13.7%*	*-8.4%*	*-3.2%*	*0.0%*	*2.1%*	*7.4%*
Scenario 4 (Oil Tax Rate of 45.0%):							
Revenues	**7,424**	**6,589**	**6,996**	**7,404**	**7,649**	**7,812**	**8,219**
% of GDP	*21.3%*	*18.9%*	*20.1%*	*21.3%*	*22.0%*	*22.4%*	*23.6%*
Tax Revenues	7,033	6,198	6,605	7,013	7,258	7,421	7,828
Oil Revenues	5,319	4,484	4,892	5,299	5,544	5,707	6,115
% of Total Tax Revenues	*75.6%*	*72.3%*	*74.1%*	*75.6%*	*76.4%*	*76.9%*	*78.1%*
Change in Revenues vs. 2019 Budget		*-11.2%*	*-5.8%*	*-0.3%*	*3.0%*	*5.2%*	*10.7%*
Scenario 5 (Oil Tax Rate of 47.5%):							
Revenues	**7,424**	**6,838**	**7,268**	**7,698**	**7,957**	**8,129**	**8,559**
% of GDP	*21.3%*	*19.6%*	*20.9%*	*22.1%*	*22.9%*	*23.4%*	*24.6%*
Tax Revenues	7,033	6,447	6,877	7,307	7,566	7,738	8,168
Oil Revenues	5,319	4,733	5,163	5,594	5,852	6,024	6,454
% of Total Tax Revenues	*75.6%*	*73.4%*	*75.1%*	*76.5%*	*77.3%*	*77.9%*	*79.0%*
Change in Revenues vs. 2019 Budget		*-7.9%*	*-2.1%*	*3.7%*	*7.2%*	*9.5%*	*15.3%*
Non-oil Revenues	1,714	1,714	1,714	1,714	1,714	1,714	1,714
Non-tax Revenues	391	391	391	391	391	391	391
Scenario 1 (Oil Tax Rate of 37.5%):							
Primary Fiscal Balance	**3,234**	**1,651**	**1,991**	**2,331**	**2,534**	**2,670**	**3,010**
% of GDP	*9.3%*	*4.7%*	*5.7%*	*6.7%*	*7.3%*	*7.7%*	*8.6%*
Overall Fiscal Balance	**2,295**	**712**	**1,052**	**1,392**	**1,596**	**1,731**	**2,071**
% of GDP	*6.6%*	*2.0%*	*3.0%*	*4.0%*	*4.6%*	*5.0%*	*6.0%*
Scenario 2 (Oil Tax Rate of 40.0%):							
Primary Fiscal Balance	**3,234**	**1,900**	**2,263**	**2,625**	**2,842**	**2,987**	**3,350**
% of GDP	*9.3%*	*5.5%*	*6.5%*	*7.5%*	*8.2%*	*8.6%*	*9.6%*
Overall Fiscal Balance	**2,295**	**961**	**1,324**	**1,686**	**1,904**	**2,048**	**2,411**
% of GDP	*6.6%*	*2.8%*	*3.8%*	*4.8%*	*5.5%*	*5.9%*	*6.9%*
Scenario 3 (Oil Tax Rate of 43.2%):							
Primary Fiscal Balance	**3,234**	**2,217**	**2,608**	**2,999**	**3,234**	**3,390**	**3,781**
% of GDP	*9.3%*	*6.4%*	*7.5%*	*8.6%*	*9.3%*	*9.7%*	*10.9%*
Overall Fiscal Balance	**2,295**	**1,278**	**1,669**	**2,060**	**2,295**	**2,451**	**2,842**
% of GDP	*6.6%*	*3.7%*	*4.8%*	*5.9%*	*6.6%*	*7.0%*	*8.2%*
Scenario 4 (Oil Tax Rate of 45.0%):							
Primary Fiscal Balance	**3,234**	**2,398**	**2,806**	**3,214**	**3,458**	**3,621**	**4,029**
% of GDP	*9.3%*	*6.9%*	*8.1%*	*9.2%*	*9.9%*	*10.4%*	*11.6%*
Overall Fiscal Balance	**2,295**	**1,460**	**1,867**	**2,275**	**2,520**	**2,683**	**3,090**
% of GDP	*6.6%*	*4.2%*	*5.4%*	*6.5%*	*7.2%*	*7.7%*	*8.9%*
Scenario 5 (Oil Tax Rate of 47.5%):							
Primary Fiscal Balance	**3,234**	**2,648**	**3,078**	**3,508**	**3,766**	**3,938**	**4,369**
% of GDP	*9.3%*	*7.6%*	*8.8%*	*10.1%*	*10.8%*	*11.3%*	*12.6%*
Overall Fiscal Balance	**2,295**	**1,709**	**2,139**	**2,569**	**2,828**	**3,000**	**3,430**
% of GDP	*6.6%*	*4.9%*	*6.1%*	*7.4%*	*8.1%*	*8.6%*	*9.9%*

Source: Angolan authorities and Eaglestone Securities.

ANNEX – ECONOMIC FORECAST SUMMARY

ANGOLA ECONOMIC FORECASTS	2013	2014	2015	2016	2017	2018F	2019F	2020F	2021F
Gross Domestic Product (annual growth)									
Real GDP	5.0%	4.8%	0.9%	-2.6%	-0.1%	-1.7%	2.5%	3.2%	3.2%
Oil Sector	-0.9%	-2.5%	11.1%	-2.7%	-5.3%	-8.2%	3.1%	2.0%	0.0%
Non-oil sector	8.7%	9.2%	-4.4%	-2.5%	3.0%	0.0%	2.2%	3.7%	4.5%
Gross Domestic Product (current prices, AKZ bn)	13,195	14,324	13,950	16,550	20,262	27,390	34,808	39,219	42,832
Gross Domestic Product (current prices, US$ bn)	136.7	145.7	116.2	101.1	122.1	104.5	98.9	104.9	108.2
Population (million)	25.1	25.9	26.7	27.5	28.3	29.2	30.1	31.0	31.9
Gross Domestic Product per capita (US$)	5,437	5,626	4,355	3,677	4,466	3,924	3,666	3,702	3,708
Investment (% of GDP)									
Total Investment	26.1%	27.5%	34.2%	27.2%	29.6%	26.4%	26.1%	27.0%	27.8%
Gross National Savings	32.0%	29.8%	28.5%	24.5%	28.6%	24.3%	24.2%	26.7%	27.6%
External Sector									
Exports of Goods & Services (annual growth)	0.1%	-2.1%	6.7%	-0.6%	-4.8%	1.3%	0.3%	0.6%	0.4%
Imports of Goods & Services (annual growth)	9.2%	11.4%	-21.8%	-25.3%	0.3%	21.7%	-1.0%	-6.1%	-4.5%
Current Account Balance (% of GDP)	6.1%	-2.6%	-8.8%	-4.8%	-0.4%	2.0%	-2.0%	-0.3%	-0.5%
Oil Sector									
Production (million barrels)	626.2	610.3	649.7	638.4	643.1	590.2	608.5	618.7	620.5
Production (million bpd)	1.716	1.672	1.780	1.749	1.762	1.617	1.667	1.695	1.700
Price (US$ per barrel)	107.7	97.4	48.9	40.9	54.0	72.0	68.0	67.5	64.0
Consumer Price Inflation									
Consumer Prices (period average)	8.8%	7.3%	9.2%	30.7%	29.8%	19.6%	15.8%	10.9%	8.9%
Consumer Prices (end of period)	7.7%	7.5%	12.1%	41.1%	23.7%	18.6%	15.5%	10.0%	8.0%
General Government (% of GDP)									
Revenues	36.7%	30.7%	24.1%	17.5%	17.5%	20.5%	21.3%	20.9%	20.0%
Expenditures	37.1%	36.5%	27.1%	22.0%	23.8%	20.1%	20.1%	20.8%	20.6%
Fiscal Balance	-0.3%	-5.7%	-2.9%	-4.5%	-6.3%	0.4%	1.2%	0.1%	-0.6%
Gross Debt	33.1%	39.8%	57.1%	75.7%	68.5%	91.0%	79.1%	73.8%	71.9%
Foreign Investment and Reserves									
Net Foreign Direct Investment (US$ mn)	-13,164	-2,331	8,235	-453	-8,749	-3,000	1,500	1,650	1,650
Net International Reserves (US$ bn)	31.2	27.1	24.3	20.8	13.3	11.9	13.7	15.7	17.2
Net International Reserves (in months of imports)	7.6	6.1	7.7	9.7	5.6	4.8	5.4	6.0	6.3
Exchange Rate									
Exchange Rate (period average, AKZ/US$)	96.5	98.3	120.1	163.7	165.9	252.9	352.0	373.9	395.9
Exchange Rate (end of period, AKZ/US$)	97.6	102.9	135.3	165.9	165.9	308.6	352.0	373.9	395.9

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

Disclaimer

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

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

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

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

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

Additional information is available upon request.

AMSTERDAM - Herengracht 450-454 1017 CA - T: +31 20 240 31 60

CAPE TOWN - 22 Kildare Road Newlands 7700 - T: +27 21 674 0304

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

LISBON - Av. da Liberdade, 105, 3rd Floor - T: +351 21 121 44 00

LONDON - 48 Dover Street - T: +44 20 7038 6200

LUANDA - Rua Marechal Brós Tito n° 35/37 - 13th Floor A - Kinaxixi, Ingombotas - T: +244 222 441 362

MAPUTO – Avenida Vladimir Lenine – Edifício Millennium Park, Torre A, nº 174, 4º andar S - T: +258 21 342 811

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

Research
Tiago Bossa Dionísio
(+351) 964 643 530
tiago.dionisio@eaglestone.eu

Business Intelligence
Caroline Fernandes Ferreira
caroline.ferreira@eaglestone.eu