The Angolan Economy

Poised for (modest) economic growth

Research
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Economics
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Recession persisted in 2019

Economic activity in Angola is widely expected to contract for a fourth consecutive year in 2019, marking the longest (and worst) recession in the country since the end of the civil war in 2002. This performance came in the aftermath of a sharp decline in oil prices from a level clearly above US$100 during 2014-17 that led to significant underinvestment in the oil and gas sector in recent years. It resulted in much lower oil production and, subsequently, fewer receipts for the government's tight coffers. The need to secure some fiscal adjustment meant that the local authorities had to aggressively reduce capex levels, only exacerbating the downturn in activity. Indeed, public investment remains a key source of growth of the non-oil sector, which now represents more than 65% of the country's GDP (vs. less than 45% a decade ago). Meanwhile, inflation benefitted from persistently tight monetary conditions, slowing to below 18% from a peak above 41% at end-2016. This despite a sharp depreciation of the kwanza and the impact of adjustments in some administered prices.

Economic activity is expected to improve in 2020

The government expects that Angola's economic recession will finally come to an end next year. The 2020 budget proposal recently presented to parliament includes a real GDP growth forecast of 1.8% in the period following an expected contraction of 1.1% this year. This assumption is based on a recovery in the oil sector (1.5%) from a very weak performance in recent years and activity in the non-oil sector to advance at a faster pace of 1.9% (vs 0.6% this year). The proposal also foresees average daily oil production increasing 3.4% to 1.437 million barrels as output from France's Total oil project at the Kaombo Sul area stabilizes, and for oil prices to average US$ 55. This is the same price assumption included in this year's revised budget that proved to be somewhat conservative. In the non-oil sector, the areas that are expected to see a more marked improvement include agriculture, fishing and retail.

Budget proposal

The 2020 budget proposal amounts to AKZ 15,971 billion, representing an increase of 53.5% when compared with this year's revised budget figure. It assumes a fiscal surplus of 1.2% and primary surplus of 7.1% of GDP, meaning that public accounts could be in positive territory for a third consecutive year in 2020. Unsurprisingly, the government expects to continue to rely more on fiscal revenues to finance planned expenditures. However, it is worth noting the sharp increase of 72.4% YoY in debt financing, especially in overseas markets. This trend witnessed in recent years has resulted in a marked increase in public debt levels, which are expected to reach 97% of GDP in 2019 (vs. 85% in 2018). These elevated public debt levels mean that over 60% of planned receipts for 2020 are likely to be allocated toward debt amortization and interest payments alone, or about double the allocation in 2016-17.

IMF program to help economic recovery

With the assistance of the IMF program, the local authorities are expected to remain strongly committed to addressing existing imbalances. A combination of tight fiscal and monetary policies is crucial to bring debt-to-GDP closer to a target of 60% after 2021 and inflation toward single-digits possibly sometime after 2022. Still, monetary policy should be supportive of much needed economic growth. The continued implementation of reforms to bolster business environment should help to improve activity in the non-oil sector, lowering Angola's persistently high dependence on oil and reducing the risks to its economic outlook.

ECONOMIC ACTIVITY AND INFLATION

Angola has been in a recession since 2016

Angola has been in a recession in the last four years (2016-19) as lackluster growth in the non-oil sector has been insufficient to offset the impacts from both lower oil production and prices. The latest government forecasts suggest that economic activity in the country will contract 1.1% in 2019 after falling 1.2% in the previous year. This estimate is more pessimistic than the most recent forecast from the IMF suggesting a contraction of just 0.3% in the period.

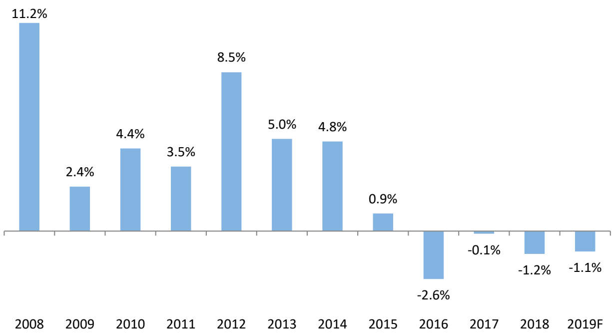
The oil sector will likely see another sharp contraction in 2019

The government expects that the oil and gas sector continued to see a material decline this year (-5.2% YoY) after tumbling 9.5% in 2018. In particular for the oil sector, this performance is due to both volume and pricing effects. The latest available figures are from August 2019 and showed that oil exports fell 6.9% YoY in the first eight months of the year while the average oil price decreased 28.6% in the same period. This means that total oil export receipts tumbled 33.7% YoY to US$ 16,519 million.

Growth in the non-oil sector is likely to be very muted this year

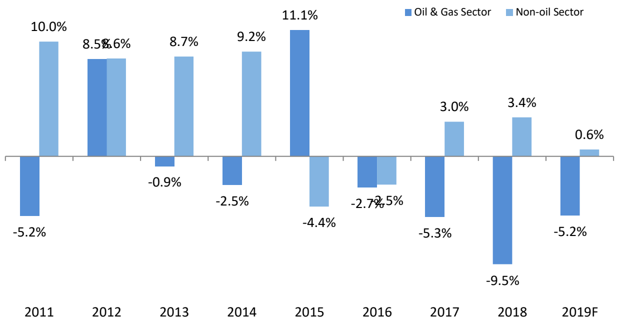
On the other hand, the local authorities expect growth in the non-oil sector to be quite modest, advancing only 0.6% this year from 1% in 2018. A strong recovery in activity in the extractive industry (17.9% YoY) and an improved contribution from the construction, agriculture and retail sectors largely explain this performance.

REAL GDP GROWTH (2008-19F)



Sources: INE and Ministry of Finance.

REAL GDP GROWTH BY SECTOR (2011-19F)

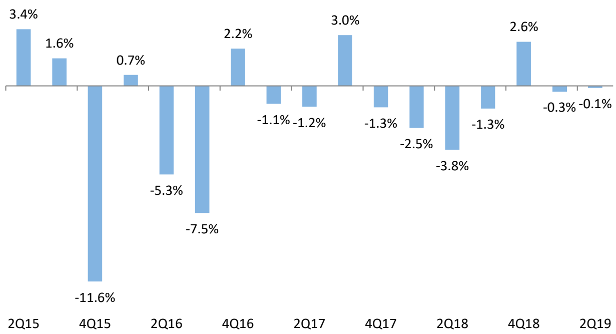


Sources: INE and Ministry of Finance.

Real GDP fell by only 0.2%YoY in the first half of 2019

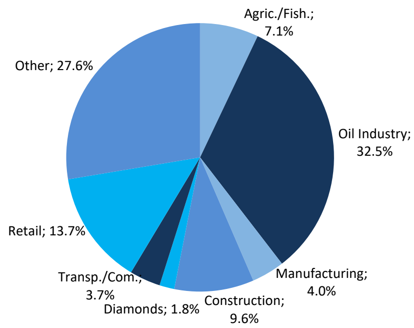
The most recent figures disclosed by the National Statistics Institute (INE) show that real GDP fell by 0.2% in the first half of 2019 from a year earlier. The oil industry, which still represents nearly a third of the country's GDP, saw a contraction of 5.5% in the period. Activity in most sectors of the economy declined, with the exceptions being agriculture, energy, construction, real estate and public administration. Although the pace of the current downturn is slowing, it is worth noting that real GDP has declined (in homologous terms) in four quarters out of the last 14 quarters, or since the start of 2016 when the current recession began.

REAL GDP GROWTH (YOY; 2Q15 – 2Q19)



Source: INE.

GDP STRUCTURE (1H 2019)



Source: INE.

The inflation rate has kept a downward trajectory in 2019

Meanwhile, the inflation rate in the country has kept a downward trajectory in 2019 thanks to a persistently tight monetary policy adopted by the central bank and the implementation of price control measures for some goods. We recall that inflation peaked above the 40% level at end-2016 due to the gradual elimination of fuel subsidies and a marked depreciation of the kwanza.

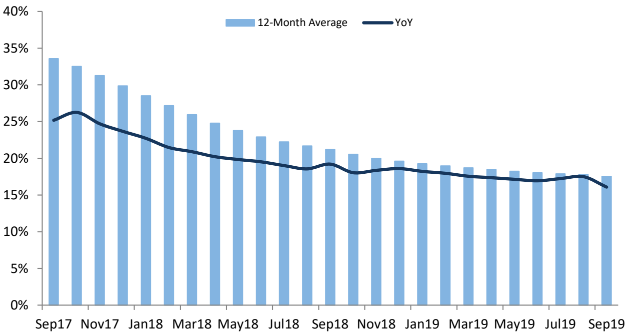
The latest figures released by the INE showed that accumulated inflation reached 11.44% in the first nine months of this year, which compares with 18.12% in the same period of 2017 and 13.86% in 2018. Annual inflation stood at 16.08% in September while the 12-month average reached 17.54%. These figures compare with 18.60% and 19.61%, respectively, at end-2018.

Annual inflation reached 16.08% in September, down from 19.61% at end-2018

Consumer price inflation is anticipated to pick-up slightly in the last quarter of 2019 as a result of the adjustments being carried out in some administered prices, including electricity tariffs. As shown below, the government currently forecasts inflation to reach 17.7% by the end of the year, which is relatively in line with the projection made in the 2019 revised budget.

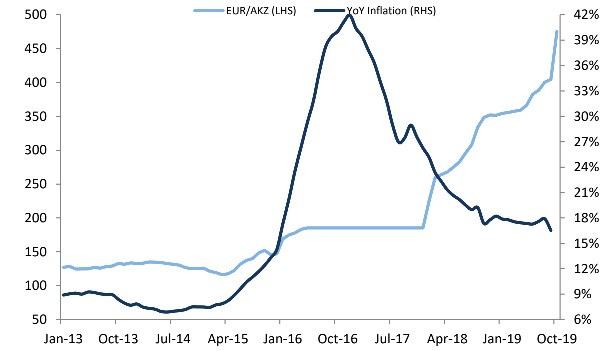
Inflation is expected to pick-up slightly to 17.7% by the end of the year

ANNUAL AND 12-MONTH AVERAGE INFLATION



Source: INE.

KWANZA EXCHANGE RATE AND ANNUAL INFLATION



Sources: BNA and INE.

MONETARY POLICY

The Banco Nacional de Angola (BNA) has kept liquidity conditions tight during 2019 while its reference rate remains elevated after the numerous increases that took place since end-2014 (10 times for a total of 925bps) in order to contain the depreciation of the kwanza and its impact on inflation. After peaking at 18% in end-2017, the BNA rate was lowered once in July 2018 (150bps) and twice this year (75bps in January and 25bps in May) as pressures on consumer prices receded while reserve requirements in local currency were also significantly reduced.

The BNA has adopted a tight monetary policy stance since end-2014

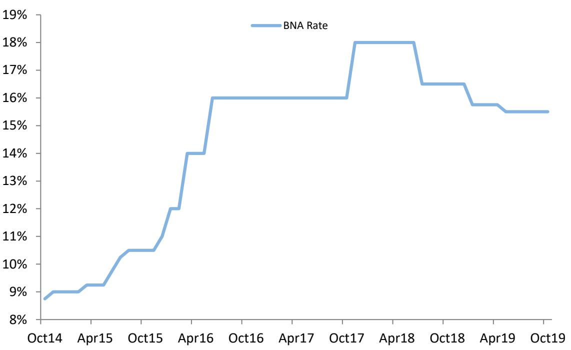
The BNA recently decided to keep its benchmark rate unchanged at 15.5% in an extraordinary monetary policy meeting held at the end of October. However, the central bank decided to raise the mandatory reserve requirements rate in local currency from 17% to 22%. More importantly, the BNA stated that it was introducing several measures aimed at making the foreign exchange market in Angola more flexible following the reforms already announced in January 2018.

After lowering the BNA rate once in 2018 and twice this year, the central bank kept its benchmark rate unchanged at its last meeting

Since January 2018, the central bank (1) ended the indexation of the kwanza to the US dollar, (2) settled foreign exchange arrears with domestic banks since 2014, (3) eliminated the direct sale of foreign currency to companies and individuals by the BNA and (4) restored the liquidity levels in foreign currency at local banks, allowing their clients better access and movement of their accounts.

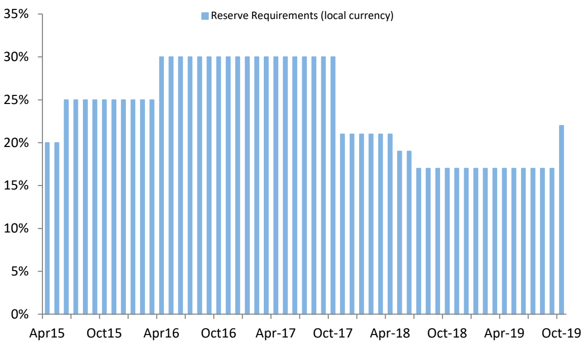
The BNA has introduced several measures to reform the foreign exchange market since January 2018

EVOLUTION OF THE BNA RATE



Source: BNA.

RESERVE REQUIREMENTS IN LOCAL CURRENCY



Source: BNA.

The central bank recently announced several measures to further liberalize the foreign exchange market

The central bank also announced at its extraordinary meeting the following measures in terms of monetary policy and further liberalization of the foreign exchange market in the country: (1) raise the 7-day liquidity absorption rate from 0% to 10%, (2) maintain the overnight liquidity absorption rate at 0% and (3) remove the margin of 2% above the central bank foreign currency sell rate that commercial banks charge in the interbank market and to their customers. These measures are aimed at implementing a floating exchange rate regime where the exchange rate is freely defined by the market or, in other words, determined by the demand and supply of foreign currency. This change comes in line with one of the key proposals included in the IMF's existing financial assistance program with Angola whereby it defends the liberalization of the foreign exchange market.

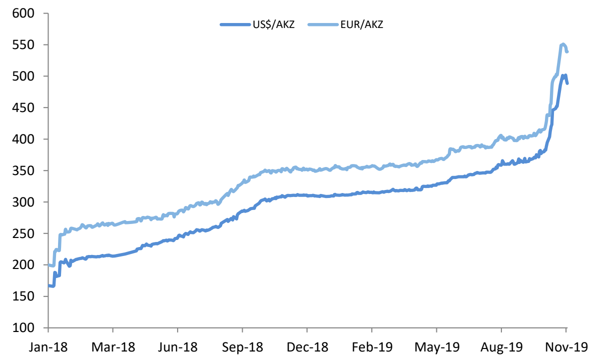
The kwanza exchange rate has significantly depreciated against the EUR and US$

This announcement led to a sharp depreciation of the kwanza against both the EUR and US$, namely 24.9% and 25.8%, respectively, during the month of October alone. Indeed, the BNA had allowed for a market-determined exchange rate since the second week of October, with this impact being immediately reflected in the kwanza exchange rate from that period onwards. The local currency has also depreciated 34.5% against the EUR and 36.8% versus the US$ since the beginning of the year as well as 62.9% and 65.8%, respectively, since January 2018.

The gap in the FX rate in the parallel and official markets widened to more than 40% in recent months

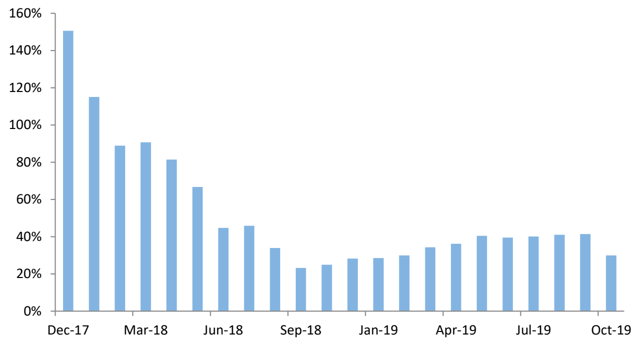
Meanwhile, the gap in the kwanza exchange rate between the parallel and official markets has widened throughout most of 2019, reaching more than 40% in recent months. This reflects the relatively larger demand for foreign currency compared with the existing supply. This gap has narrowed in recent days following the latest changes announced by the BNA in the foreign exchange market and is expected to continue to gradually adjust going forward. Recall that this differential reached a level close to 150% in December 2017.

KWANZA EXCHANGE RATE



Source: Bloomberg.

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



Sources: BNA, Roke Santeiro and Eaglestone Securities.

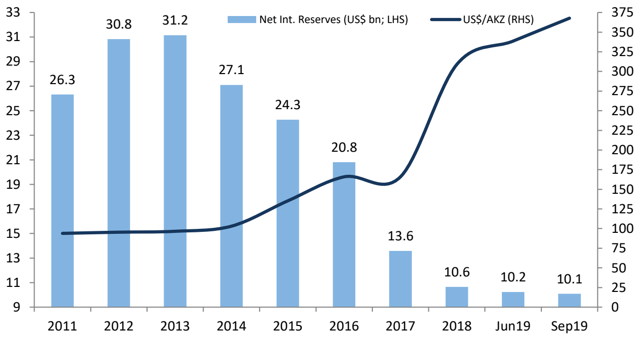
Foreign reserves at the central bank have stabilized in recent months

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 about US$ 10 billion. The level of reserves has remained relatively stable in recent months. This is largely explained by the strong depreciation of the kwanza and the impact that it has had on the demand for foreign currency. The latest available figures show that foreign currency sold to commercial banks fell by 20% in the first nine months of 2019 when compared with the same period of the previous year (and nearly 25% from the same period of 2017).

Changes in the FX market are likely to help protect reserves and reduce external imbalances

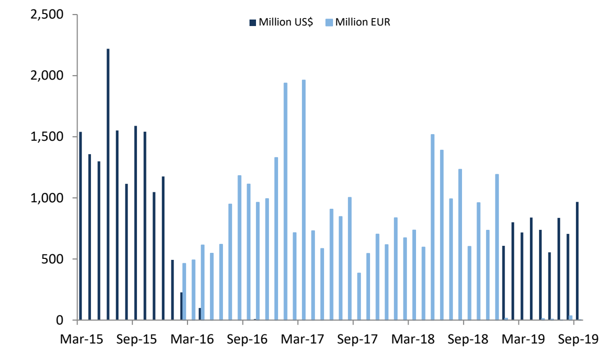
All in all, the changes recently introduced by the central bank are expected to bring a better balance to the foreign exchange market, eventually reducing the gap between the exchange rate in the parallel and official markets. This will also help protect international reserves and reduce the imbalances in the country's external accounts.

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



Source: BNA.

MONTHLY FX SALES TO COMMERCIAL BANKS



Source: BNA.

EXTERNAL ACCOUNTS

The current account surplus declined 42.7% YoY in the first half of 2019 due to lower surpluses in the trade and financial account balances

The BNA's latest reported balance of payments data relates to the first half of 2019. It showed a surplus in the current account balance of US$ 1,894 million (4.1% of GDP), down 42.7% from a surplus of US$ 3,307 million (6.2% of GDP) in the homologous period. This evolution was mostly due to lower surpluses in the trade (-17.5% YoY) and financial account balances (-79.9% YoY). In terms of the trade balance, we note the decline in exports from the oil sector (-13.5% YoY), which resulted from both lower crude exports and prices. Oil exports fell to 253.9 million barrels from 273.9 million in the first half of 2018 (7.3% YoY) while the average oil price dropped by 2.9% YoY to US$ 64.0 per barrel in the period. On the other hand, imports were 6.1% YoY lower, likely reflecting the continued contraction in economic activity in the country. Overall, exports and imports represented 38.8% and 17.1% of GDP, respectively.

The sharp drop in financial account reflects the disinvestment of financial assets from abroad

The sharp fall in the financial account surplus reflects much lower net foreign direct investment (FDI) namely from the disinvestment of financial assets from abroad amounting to US$ 2,395 million in the first quarter of 2019.

BALANCE OF PAYMENTS										YoY Chg
US$ Million	2015	2016	2017	2018	1H 2018	1H 2019	2016/15	2017/16	2018/17	1H19/18
Current Account	-10,273	-3,085	-633	7,403	3,307	1,894	-70.0%	-79.5%	n.m.	-42.7%
Trade Balance	12,489	14,548	20,150	24,960	12,054	9,942	16.5%	38.5%	23.9%	-17.5%
Exports, f.o.b.	33,181	27,589	34,613	40,758	20,394	17,775	-16.9%	25.5%	17.8%	-12.8%
Oil Sector	31,895	26,366	33,312	39,409	19,763	17,104	-17.3%	26.3%	18.3%	-13.5%
Other	1,286	1,223	1,301	1,349	631	671	-4.9%	6.4%	3.7%	6.4%
Imports, f.o.b.	-20,693	-13,040	-14,463	-15,798	-8,340	-7,833	-37.0%	10.9%	9.2%	-6.1%
Services Balance	-16,020	-11,906	-12,809	-9,458	-4,976	-3,947	-25.7%	7.6%	-26.2%	-20.7%
Income Balance	-6,741	-5,728	-7,974	-8,099	-3,770	-4,100	-15.0%	39.2%	1.6%	8.8%
Capital Account Balance	6	1	3	3	3	3	-90.6%	344.9%	11.6%	-5.3%
Financial Account Balance	-11,476	-4,889	-749	6,363	4,055	814	-57.4%	-84.7%	n.m.	-79.9%
Net Foreign Direct Investment	-10,813	453	8,749	5,738	2,870	-698	n.m.	1833.5%	-34.4%	n.m.
Net Errors and Omissions	-1,210	-1,805	-118	-1,042	745	-1,083	49.2%	-93.4%	780.1%	n.m.
Values as a % of GDP (1):										
Current Account	-8.8%	-3.1%	-0.5%	7.0%	6.2%	4.1%				
Trade Balance	10.7%	14.4%	16.5%	23.6%	22.8%	21.7%				
Exports	28.6%	27.3%	28.3%	38.5%	38.5%	38.8%				
Imports	17.8%	12.9%	11.8%	14.9%	15.8%	17.1%				
Services Balance	-13.8%	-11.8%	-10.5%	-8.9%	-9.4%	-8.6%				
Income Balance	-5.8%	-5.7%	-6.5%	-7.6%	-7.1%	-9.0%				
Financial Account Balance	-9.9%	-4.8%	-0.6%	6.0%	7.7%	1.8%				
Net Foreign Direct Investment	-9.3%	0.4%	7.2%	5.4%	5.4%	-1.5%				

Sources: BNA, IMF and Eaglestone Securities.

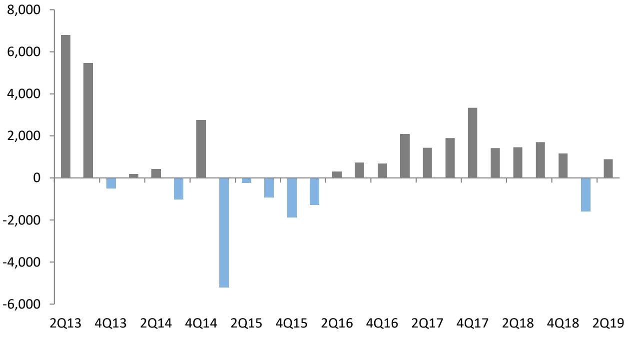
Net FDI showed a mixed picture in the first two quarters of 2019

Net FDI showed a mixed picture in the first two quarters of 2019. The first quarter saw a sharp decline for the reason aforementioned while the second quarter figure for net FDI stood at just US$ 894 million. This is much lower than the quarterly average of US$ 1,435 million in 2018.

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

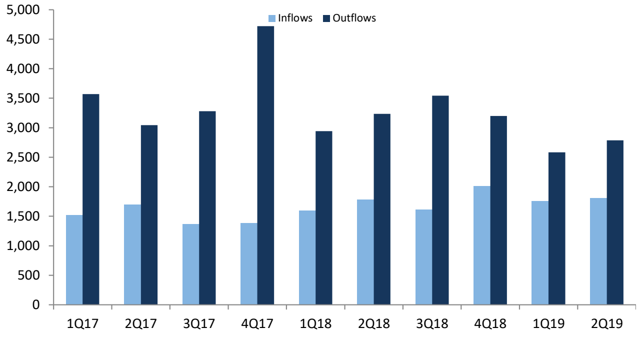
In particular, FDI inflows reached US$ 4,296 million in the first quarter and US$ 1,950 million in the second quarter for a total of US$ 6,246 million in the first six months of the year. This is 75.5% higher than the reading in the homologous period. We note that inflows allocated to the oil sector stood at 41.0% and 92.9% of the total FDI inflows the two quarters, respectively. On the other hand, outflows amounted to US$ 5,548 million in the first half (-13.7% YoY), with 96.8% of these outflows related to the oil sector.

NET FOREIGN DIRECT INVESTMENT (US$ MILLION)



Source: BNA.

FOREIGN DIRECT INVESTMENT OIL SECTOR (US$ MILLION)



Source: BNA.

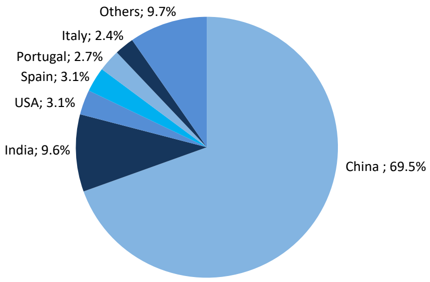
Other data released by the BNA showed that China accounted for nearly 70% of Angola's oil exports in the first half of 2019, with India being the country's second exporting market with 9.6% of total oil exports. The US, Spain and Portugal accounted for nearly 3% of total oil exports each and Italy with 2.4%.

China accounted for nearly 70% of Angola's oil exports

Moreover, China was Angola's main supplier in the first half of the year, accounting for 12.3% of total imports, closely followed by Portugal (11.5%). It is worth noting that Chinese imports rose 6.8% YoY while imports from Portugal continued to decline, falling nearly 9% YoY.

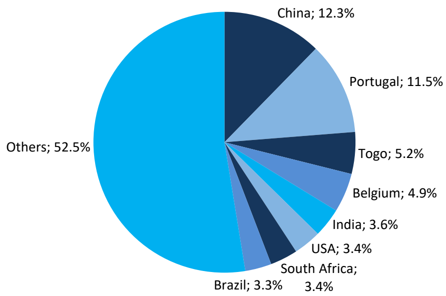
China and Portugal remained the country's main suppliers

EXPORTS BY COUNTRY (1H 2019)



Source: BNA.

IMPORTS BY COUNTRY (1H 2019)

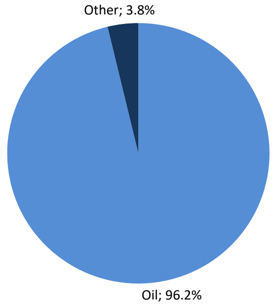


Source: BNA.

In terms of products, oil continued to represent nearly all of the country's exports, accounting for 96.2% of the total. This compares with 96.9% in the first six months of 2018. The breakdown of imports by products was more evenly balanced. Aircraft and vessels accounted for 19.9% of the total, machinery and electrical equipment for 18.4% and foods for 16.3%.

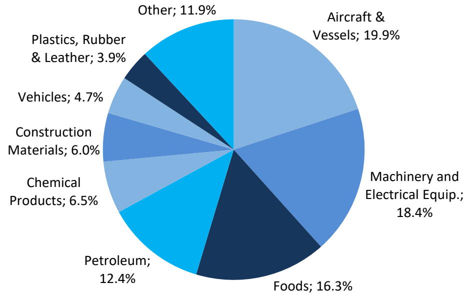
Oil represented 96.2% of Angola's total exports in the first half of 2019

EXPORTS BY PRODUCT (1H 2019)



Source: BNA.

IMPORTS BY PRODUCT (1H 2019)



Source: BNA.

BUDGET PROPOSAL (2020)

The government expects real GDP growth of 1.8% in 2020 after four consecutive years of economic contraction

The macroeconomic projections included in the 2020 budget recently presented to parliament suggest that the economic recession of the past four years (2016-19) could finally come to an end in 2020. The government forecasts that real GDP will expand by 1.8% (from a contraction of 1.1% expected this year) as the oil and gas sector recoups from a very weak performance in the recent past and activity in the non-oil sector advances at a slightly faster pace. In particular, growth in the oil and gas sector is anticipated to reach 1.5% and in the non-oil sector it is forecasted to stand at 1.9% (vs. -5.2% and 0.6%, respectively, this year). In the non-oil sector, the areas that are expected to see a more marked improvement next year include agriculture, fishing and retail, as detailed in the table below.

ECONOMIC ACTIVITY	2017	2018	2019 (1)	2020 (2)
Real GDP Growth	**-0.1%**	**-1.2%**	**-1.1%**	**1.8%**
- Oil and Gas	-5.3%	-9.5%	-5.2%	1.5%
Oil	-5.2%	-9.7%	-6.1%	3.4%
Gas	461.4%	-5.3%	7.8%	-21.8%
- Non-oil	1.2%	1.0%	0.6%	1.9%
Agriculture	1.4%	-2.0%	1.8%	3.1%
Fishing	-1.1%	-17.1%	-0.2%	4.0%
Extractive Industry	-0.8%	-6.3%	17.9%	6.6%
Manufacturing	1.2%	4.6%	3.6%	1.2%
Construction	2.5%	0.4%	3.5%	1.3%
Energy	-1.7%	22.3%	10.7%	0.5%
Commerce	1.5%	-0.2%	0.5%	1.2%
Other	0.3%	1.2%	-3.1%	1.5%
Nominal GDP (AKZ billion)	**20,262.3**	**26,777.9**	**32,267.5**	**42,126.5**
- Non-oil	16,022.3	19,015.1	22,558.1	28,869.4

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

Oil production is expected to increase in 2020 after output in France's Total oil project in the Kaombo Sul area stabilizes

The 2020 budget also assumes that average daily oil production will increase to 1.437 million barrels (3.4% higher than the forecast of 1.389 million bpd for 2019). This forecast is based on the stabilization in the production in France's Total oil project at the Kaombo Sul area, which is currently Angola's biggest deepwater offshore development, and where output is anticipated to reach 114,000 bpd. The government also foresees oil prices averaging US$ 55 in 2020. This is lower than its current forecast of US$ 63.2 for this year, but it is the same projection that the local authorities had in the 2019 revised budget.

The government's projections for 2020 are also based on several assumptions

The government's projections for the oil and gas sector for 2020 are based on: (1) the restart of production in the Raia, Bagre and Albacore fields in Block 2/05; (2) the start of production in the Gimboa Noroeste (BiNW) in Block 4/05 with an average production of 4,000 bpd; (3) the reestablishment and improvement in the injection of water in several concessions; (4) the fulfillment and optimization of the maintenance programs projected for the Blocks 4/05, 14, 17 and 18 in the scheduled deadlines; (5) the start of production in the Agogo field, phase 1, in Block 15/06 with average production of 8,000 bpd; and (6) the hiring and mobilization of a second rig for intervention services in the oil fields of Blocks 18 and 31.

Inflation is forecasted to increase to 25% next year as a result of the gradual adjustment in fuel prices

Meanwhile, inflation is expected to increase to 25% next year largely as a result of the gradual adjustment in fuel prices. This goes against the government's goal for inflation not to increase after 2018 and for consumer prices to gradually decline toward single-digits by end-2022. This projection compares with a forecast of 17.7% for 2019, which is slightly higher than the 17.5% initially foreseen. This slight revision was due to the adjustments made by the local authorities in administered prices, namely in electricity tariffs.

ECONOMIC INDICATORS	2017	2018	2019 (1)	2019 (2)	2020 (3)
Inflation	23.7%	18.6%	17.5%	17.7%	25.0%
Diamond Production (Thousand Carats)	8,964.1	8,096.5	9,547.3	9,547.3	10,175.0
Diamond Average Price (US$/Carat)	115.1	144.1	154.4	154.4	162.1
Annual Oil and LNG Production	643.2	583.0	571.7	553.6	560.9
Oil Production (MBbl)	597.6	539.8	523.7	507.1	524.5
LNG Production (MBOE)	45.6	43.2	48.0	46.5	36.4
Daily Oil Production (Million Bbl/day)	1.637	1.479	1.435	1.389	1.437
Average Oil Price (US$/Bbl)	53.9	70.6	55.0	63.2	55.0
Average LNG Price (US$/BOE)	29.0	48.7	29.0	48.7	50.9

(1) Revised Budget; (2) Forecast; (3) Budget Proposal. Source: Angolan authorities.

As disclosed below, the 2020 budget proposal amounts to AKZ 15,971 billion, representing an increase of 53.5% when compared with the 2019 revised budget figure of AKZ 10,407 billion. It also foresees a fiscal surplus of 1.2% of GDP that compares with a balanced budget projected in the 2019 revised budget. We note that the initial 2019 budget proposal assumed a budget surplus of 1.5% of GDP. Moreover, the 2020 budget proposal includes a primary surplus of 7.1% of GDP. This is higher than the 5.2% expected in 2019 revised budget and 6.1% included in the initial 2019 budget proposal.

The 2020 budget proposal amounts to AKZ 15,971 billion (+53.5% YoY) and foresees a fiscal surplus of 1.2% of GDP

In the budget, the government anticipates that total revenues and total expenditures will reach AKZ 8,611 billion and AKZ 8,092 billion, respectively, in 2020. This is an increase of 43.9% in revenues and 35.2% in expenditures when compared with the 2019 revised budget figures. The government's projections foresee an overall fiscal surplus of AKZ 519 billion that follows a balance budget for 2019. The primary fiscal balance (which excludes interest payments) is also expected to reach a surplus (AKZ 2,993 billion), as debt payments remain elevated in the period.

The government expects to reach an overall fiscal surplus in 2020

In terms of revenues, the government foresees a strong increase of 45.5% YoY in tax revenues and a more moderate increase of 21.7% YoY in non-tax revenues when compared with the revised budget for 2019. Tax revenues are expected to be boosted by much higher oil receipts, reflecting the recovery in oil production in the period, and also non-oil related income. We note that next year will see the full impact of the recent introduction of the value-added tax (VAT) in October 2019 as part of the government's strategy to broaden the tax base as well as its plans to restructure several taxes. On the other hand, the increase in spending levels is expected to be mainly driven by higher current expenditures (36.6% YoY), including higher spending on interest payments as well as goods and services. It is also worth noting the continued recovery in capital expenditures, as they are expected to 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 interests and goods and services

GOVERNMENT ACCOUNTS					Change		
AKZ BILLION	2017	2018	2019 (1)	2020 (2)	2018 / 2017	2019 (1) / 2018	2020 (2) / 2019 (1)
Revenues	**3,543**	**5,860**	**5,986**	**8,611**	**65.4%**	**2.2%**	**43.9%**
Tax Revenues	3,203	5,408	5,564	8,097	68.9%	2.9%	45.5%
Oil Revenues	2,009	3,715	3,568	5,581	84.9%	-4.0%	56.4%
% of Total Tax Revenues	*62.7%*	*68.7%*	*64.1%*	*68.9%*			
Non-oil Revenues	1,194	1,693	1,996	2,517	41.9%	17.9%	26.1%
Non-tax Revenues	340	452	422	514	32.8%	-6.6%	21.7%
Expenditures	**4,822**	**5,319**	**5,986**	**8,092**	**10.3%**	**12.6%**	**35.2%**
Current Expenditures	3,499	4,130	4,949	6,761	18.0%	19.8%	36.6%
Wages	1,507	1,539	1,793	2,218	2.1%	16.5%	23.7%
Goods and Services	841	884	840	1,200	5.1%	-4.9%	42.8%
Interests	677	1,212	1,599	2,474	79.0%	31.9%	54.7%
Transfers	474	496	717	870	4.5%	44.7%	21.3%
Subsidies	94	86	172	251	-7.8%	99.2%	45.8%
Capital Expenditure	1,323	1,189	1,037	1,331	-10.1%	-12.8%	28.3%
Public Investment	995	1,183	1,037	1,331	18.9%	-12.3%	28.3%
Primary Fiscal Balance	**-601**	**1,754**	**1,599**	**2,993**	**n.m.**	**-8.8%**	**87.2%**
% of GDP	*-3.0%*	*6.5%*	*5.2%*	*7.1%*			
Overall Fiscal Balance	**-1,279**	**541**	**0**	**519**	**n.m.**	**-100.0%**	**n.m.**
% of GDP	*-6.3%*	*2.0%*	*0.0%*	*1.2%*			

(1) Revised Budget; (2) Budget Proposal. 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 19.2% in 2020 (roughly in line with the figure in the 2019 revised budget). Most notably, we highlight the constant decline in capital expenditures, which are only expected to represent 3.2% of GDP in 2020. This compares with double-digit figures in the period 2012-14. Current expenditures as a percentage of GDP have also fallen, but are still expected to stand at 16% of GDP in 2020.

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

GOVERNMENT ACCOUNTS	2012	2013	2014	2015	2016	2017	2018	2019 (1)	2020 (2)
									% of GDP
Revenues	**46.5%**	**40.2%**	**35.3%**	**27.3%**	**17.4%**	**17.5%**	**21.9%**	**19.3%**	**20.4%**
Tax Revenues	44.4%	38.2%	32.9%	24.7%	15.6%	15.8%	20.2%	18.0%	19.2%
Oil Revenues	37.7%	30.1%	23.8%	15.4%	8.2%	9.9%	13.9%	11.5%	13.2%
Non-oil Revenues	6.6%	8.1%	9.1%	9.3%	7.4%	5.9%	6.3%	6.5%	6.0%
Non-tax Revenues	2.1%	2.0%	2.4%	2.6%	1.8%	1.7%	1.7%	1.4%	1.2%
Expenditures	**39.8%**	**39.9%**	**41.9%**	**30.6%**	**21.9%**	**23.8%**	**19.9%**	**19.3%**	**19.2%**
Current Expenditures	29.3%	28.5%	29.4%	24.7%	18.0%	17.3%	15.4%	16.0%	16.0%
Wages	9.5%	9.6%	10.6%	11.3%	8.4%	7.4%	5.7%	5.8%	5.3%
Goods and Services	11.9%	10.2%	10.0%	6.4%	3.7%	4.1%	3.3%	2.7%	2.8%
Interests	1.0%	0.8%	1.2%	2.0%	2.8%	3.3%	4.5%	5.2%	5.9%
Transfers	6.9%	7.9%	7.6%	5.0%	3.1%	2.3%	1.9%	2.3%	2.1%
Capital Expenditure	10.5%	11.4%	12.5%	6.0%	3.9%	6.5%	4.4%	3.4%	3.2%
Public Investment	10.5%	11.4%	12.4%	5.8%	3.8%	4.9%	4.4%	3.4%	3.2%
Primary Fiscal Balance	**7.6%**	**1.1%**	**-5.4%**	**-1.3%**	**-1.7%**	**-3.0%**	**6.5%**	**5.2%**	**7.1%**
Overall Fiscal Balance	**6.7%**	**0.3%**	**-6.6%**	**-3.3%**	**-4.5%**	**-6.3%**	**2.0%**	**0.0%**	**1.2%**

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

The government is expected to allocate more than 30% of its spending to interest payments

The figures in the table below show that oil-related tax receipts are anticipated to see a much higher contribution to total revenues when compared with the 2019 revised budget projection (64.8% vs. 59.6%). Again, this is related to the relatively higher oil output expected next year. However, the figure that clearly stands out is the proportion of public spending to be allocated toward interest payments. Indeed, this figure is forecasted to surpass 30% of the total projected spending for the first time in 2020, even surpassing the amount allocated to pay the salaries of public sector workers (27.4% of the total). This has been a trend witnessed in recent years and, as demonstrated in the table below, it shows just how much the government needs to allocate to interest payments nowadays when compared with some years ago.

GOVERNMENT ACCOUNTS	2012	2013	2014	2015	2016	2017	2018	2019 (1)	2020 (2)
									% of Total
Revenues									
Tax Revenues (Oil)	81.2%	74.9%	67.5%	56.4%	47.3%	56.7%	63.4%	59.6%	64.8%
Tax Revenues (Non-Oil)	14.3%	20.1%	25.6%	34.0%	42.3%	33.7%	28.9%	33.3%	29.2%
Non-tax Revenues	4.5%	5.1%	6.9%	9.6%	10.4%	9.6%	7.7%	7.1%	6.0%
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%	77.7%	82.7%	83.6%
Wages	23.8%	24.0%	25.3%	36.8%	38.3%	31.3%	28.9%	30.0%	27.4%
Goods and Services	30.0%	25.5%	23.9%	20.9%	17.1%	17.4%	16.6%	14.0%	14.8%
Interests	2.4%	2.1%	2.8%	6.6%	12.9%	14.0%	22.8%	26.7%	30.6%
Transfers	17.4%	19.8%	18.2%	16.2%	14.0%	9.8%	9.3%	12.0%	10.8%
Capital Expenditure	26.4%	28.6%	29.8%	19.5%	17.7%	27.4%	22.3%	17.3%	16.4%
Total Expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

Total expenditures by sector are expected to rise 23.7% YoY in 2020

In terms of expenditures by sector, the government expects to spend AKZ 6,271 billion in 2020 if excluding spending on public debt operations. This is 23.7% more than what it forecasted in the 2019 revised budget. Total expenditures are anticipated to surge 53.5% to AKZ 15,971 billion if including public debt operations.

The government expects to significantly increase spending on healthcare and education in 2020, but also lower its intervention in the local economy by reducing spending in the economic sector

As detailed in the table below, planned spending on the social sector is forecasted to increase 27.6% YoY, with spending on healthcare advancing 35.6% YoY and on education 34.5% YoY. On the other hand, the government plans to spend 28.8% less in the economic sector, as it aims to lower the role that it plays in the local economy through the privatization program launched in 2019. Finally, the local authorities plan to spend 21.2% more on defense, security and social order while spending on general public services and other is expected to see a sharp increase of 65.2% YoY.

The share of spending in the economic sector is expected to see a sharp fall

A breakdown of expenditures by sector shows that the combined spending on education and healthcare is expected to continue to surpass the amount of spending on defense and security. Also, as highlighted above, the share of spending in the economic sector is expected to see a significant decline, standing at 11.0% of the total expenditures (vs. 19.1% in 2019).

EXPENDITURES BY SECTOR			Change	% Total Exp. (3)		% Total Exp.		% of GDP	
AKZ BILLION	2019 (1)	2020 (2)	2020 / 2019	2019 (1)	2020 (2)	2019 (1)	2020 (2)	2019 (1)	2020 (2)
Social Sector	2,001	2,554	27.6%	39.5%	40.7%	19.2%	16.0%	6.5%	6.1%
Education	629	846	34.5%	12.4%	13.5%	6.0%	5.3%	2.0%	2.0%
Health	588	797	35.6%	11.6%	12.7%	5.6%	5.0%	1.9%	1.9%
Social Protection	516	522	1.2%	10.2%	8.3%	5.0%	3.3%	1.7%	1.2%
Housing	228	344	51.2%	4.5%	5.5%	2.2%	2.2%	0.7%	0.8%
Other	41	45	8.2%	0.8%	0.7%	0.4%	0.3%	0.1%	0.1%
Economic Sector	968	689	-28.8%	19.1%	11.0%	9.3%	4.3%	3.1%	1.6%
Agriculture, Fishing	97	216	122.8%	1.9%	3.4%	0.9%	1.4%	0.3%	0.5%
Transports	201	213	6.2%	4.0%	3.4%	1.9%	1.3%	0.6%	0.5%
Fuel and Energy	236	163	-31.0%	4.7%	2.6%	2.3%	1.0%	0.8%	0.4%
Extractive Ind., Manufacturing, Construction	60	45	-24.8%	1.2%	0.7%	0.6%	0.3%	0.2%	0.1%
General Economic Matters	354	31	-91.4%	7.0%	0.5%	3.4%	0.2%	1.1%	0.1%
Other	20	22	7.9%	0.4%	0.3%	0.2%	0.1%	0.1%	0.1%
Defense, Security and Social Order	1,000	1,212	21.2%	19.7%	19.3%	9.6%	7.6%	3.2%	2.9%
Defense	555	552	-0.5%	11.0%	8.8%	5.3%	3.5%	1.8%	1.3%
Security and Social Order	445	660	48.3%	8.8%	10.5%	4.3%	4.1%	1.4%	1.6%
General Public Services and Other	1,099	1,817	65.2%	21.7%	29.0%	10.6%	11.4%	3.6%	4.3%
Total Expend. (Ex. Public Debt Operations)	**5,068**	**6,271**	**23.7%**	**100.0%**	**100.0%**	**48.7%**	**39.3%**	**16.4%**	**14.9%**
Public Debt Operations	**5,333**	**9,699**	**81.9%**			**51.3%**	**60.7%**	**17.2%**	**23.0%**
Domestic	2,390	5,151	115.5%			23.0%	32.3%	7.7%	12.2%
Overseas	2,943	4,549	54.6%			28.3%	28.5%	9.5%	10.8%
Total Expenditures	**10,401**	**15,971**	**53.5%**			**100.0%**	**100.0%**	**33.6%**	**37.9%**

(1) Revised Budget; (2) Budget Proposal; (3) Excl. Public Debt Operations. Sources: Angolan authorities and Eaglestone Securities.

The government expects to continue to rely more on fiscal revenues to finance its planned expenditures for 2020, with these expected to represent 53.9% of total receipts in the period. However, it is worth noting the sharp increase of 72.4% YoY anticipated in debt financing next year, in particular in international markets (88.3% YoY). This is a trend witnessed in recent years that has resulted in a very significant rise in the country's debt levels.

The government expects to continue to rely more on fiscal revenues to finance its budget

Moreover, the government expects to use more than 45% of its proceeds for debt amortization, which is significantly more than in the recent past, while 15.5% of the receipts are expected to be used in interest payments. Also, 13.2% of the total proceeds are estimated to be used to pay the wages of public sector employees and 7.5% for spending on goods and services.

More than 45% of total receipts is expected to be used for debt amortization

FINANCING				Change	% of Total			% of GDP		
AKZ BILLION	2019 (US$ 68)	2019 (US$ 55)	2020 (US$ 55)	2020 / 2019	2019 (US$ 68)	2019 (US$ 55)	2020 (US$ 55)	2019 (US$ 68)	2019 (US$ 55)	2020 (US$ 55)
Receipts										
Fiscal Revenues	7,424	5,986	8,611	43.9%	65.4%	57.5%	53.9%	21.3%	19.3%	20.4%
Taxes	7,033	5,564	8,097	45.5%	61.9%	53.5%	50.7%	20.2%	18.0%	19.2%
Oil Sector	5,319	3,568	5,581	56.4%	46.8%	34.3%	34.9%	15.3%	11.5%	13.2%
Non-oil Sector	1,714	1,996	2,516	26.0%	15.1%	19.2%	15.8%	4.9%	6.5%	6.0%
Social Contributions	181	181	281	55.5%	1.6%	1.7%	1.8%	0.5%	0.6%	0.7%
Other	210	241	232	-3.8%	1.8%	2.3%	1.5%	0.6%	0.8%	0.6%
Asset Sales	2	2	12	625.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%
Financing	3,930	4,263	7,348	72.4%	34.6%	41.0%	46.0%	11.3%	13.8%	17.4%
Domestic	1,934	1,678	2,481	47.8%	17.0%	16.1%	15.5%	5.6%	5.4%	5.9%
International	1,996	2,585	4,867	88.3%	17.6%	24.8%	30.5%	5.7%	8.4%	11.6%
Treasury Reserves	0	156	0	-100.0%	0.0%	1.5%	0.0%	0.0%	0.5%	0.0%
Total Receipts	**11,355**	**10,407**	**15,971**	**53.5%**	**100.0%**	**100.0%**	**100.0%**	**32.6%**	**33.6%**	**37.9%**
Expenditures										
Staff Costs	1,796	1,793	2,218	23.7%	15.8%	17.2%	13.9%	5.2%	5.8%	5.3%
Wages	1,702	1,698	2,100	23.7%	15.0%	16.3%	13.2%	4.9%	5.5%	5.0%
Goods and Services	1,376	840	1,200	42.8%	12.1%	8.1%	7.5%	4.0%	2.7%	2.8%
Interests	1,626	1,599	2,474	54.7%	14.3%	15.4%	15.5%	4.7%	5.2%	5.9%
Domestic	808	742	1,069	44.2%	7.1%	7.1%	6.7%	2.3%	2.4%	2.5%
External	819	858	1,405	63.8%	7.2%	8.2%	8.8%	2.4%	2.8%	3.3%
Transfers	805	717	870	21.3%	7.1%	6.9%	5.4%	2.3%	2.3%	2.1%
Subsidies	275	172	251	45.8%	2.4%	1.7%	1.6%	0.8%	0.6%	0.6%
Acquisition of Non-Fin. Assets	1,314	1,037	1,331	28.3%	11.6%	10.0%	8.3%	3.8%	3.4%	3.2%
Debt Amortization	3,843	3,734	7,226	93.5%	33.8%	35.9%	45.2%	11.0%	12.1%	17.2%
Domestic	1,758	1,649	4,082	147.6%	15.5%	15.8%	25.6%	5.1%	5.3%	9.7%
External	2,085	2,085	3,144	50.8%	18.4%	20.0%	19.7%	6.0%	6.7%	7.5%
Other Financial Investments	594	687	653	-4.9%	5.2%	6.6%	4.1%	1.7%	2.2%	1.6%
Total Expenditures	**11,355**	**10,407**	**15,971**	**53.5%**	**100.0%**	**100.0%**	**100.0%**	**32.6%**	**33.6%**	**37.9%**

Sources: Angolan authorities and Eaglestone Securities.

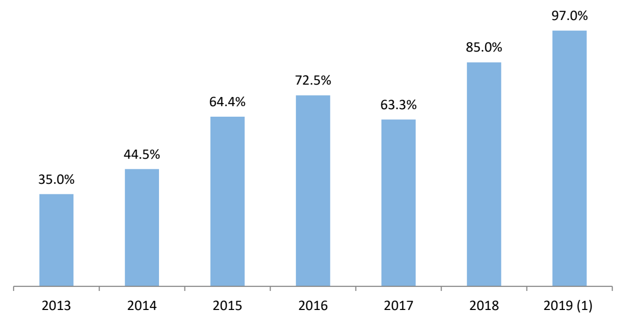
Meanwhile, data released in the 2020 budget proposal showed that Angola's public debt is expected to reach 97% of GDP in 2019. This is significantly higher than the 85% of GDP in the

Public debt is expected to reach 97% of GDP in 2019 previous year and well above the 60% reference level. We note that in the program signed with the IMF at end-2018, the government established as its target to bring public debt levels on a downward trajectory so that it reaches a level close to 60% of GDP after 2021.

We also highlight the very material increase of 81.9% YoY in debt service payments expected in 2020 when compared with the revised budget for this year. These are expected to reach AKZ 9,700 billion, or 23% of GDP, in the period.

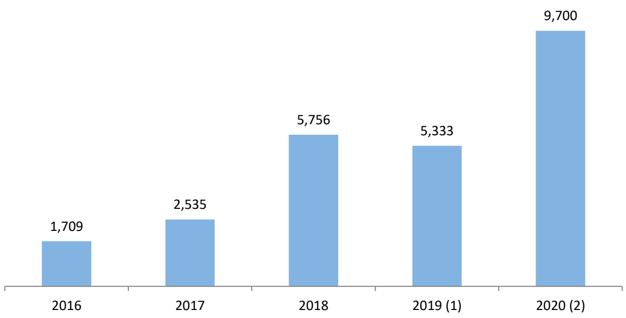
Debt service payments are expected to reach 23% of GDP in 2020

ANGOLAN PUBLIC DEBT (% OF GDP)



(1) Forecast. Source: Angolan authorities.

DEBT SERVICE PAYMENTS (AKZ BILLION)



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

SENSITIVITY ANALYSIS TO OIL PRICES

According to the IMF, the simple average of the prices of Brent, Dubai Fateh and West Texas Intermediate crude oil stood at US$ 68.33 per barrel in 2018. Based on the futures markets, the price of oil is expected to average US$ 61.78 this year and US$ 57.94 in 2020. As a result, the Angolan government's forecast of US$ 55 included in the 2020 budget proposal seems fairly accurate and could even be considered slightly conservative. The evolution of oil prices going forward will depend on several factors, including (1) the impact that the existing uncertainty on trade will have on the outlook for the global economy and, subsequently, on demand for oil, (2) the decision of OPEC and its partners about the current oil production cuts and whether they will extend the plan beyond the deadline of end-March 2020 and (3) geopolitical factors.

The government's forecast of US$ 55 for the price of oil included in the 2020 budget proposal could be considered slightly conservative

Due to the high 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 in 2020. We assume that all other things would remain equal, namely the expenditures envisaged in the 2020 budget proposal.

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

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$ 50 and US$ 65 for next year and an implied tax rate ranging from 35.0% to 47.5% based on the data collected. We also assume an average US$/AKZ exchange rate of 450.0 for the year to reflect an adjustment of 20% to the average exchange rate expected for 2019. The results of our calculations are summarized in Tables 2 and 3 and detailed in Table 4 below.

Our sensitivity analysis considers an average oil price range of US$ 50-65 per barrel in 2020

TABLE 1 - OIL/FISCAL ACCOUNTS	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (1)	2020 (2)
Oil Sector											
Annual oil production (million) (A)	641.5	605.9	631.9	626.3	610.2	648.5	630.1	597.6	539.8	523.7	524.5
Average daily oil production (million bpd)	1.76	1.66	1.73	1.72	1.67	1.78	1.73	1.64	1.48	1.43	1.44
Average oil price (US$ per barrel) (B)	77.9	110.1	111.6	107.7	96.9	53.7	40.9	53.9	70.6	55.0	55.0
Oil revenues (US$ million) = (A) x (B)	**49,969**	**66,710**	**70,520**	**67,453**	**59,125**	**34,824**	**25,771**	**32,211**	**38,110**	**28,804**	**28,848**
Exchange rate (US$/AKZ) (3)	91.1	94.0	95.4	96.6	98.3	120.1	164.0	165.9	252.9	360.0	450.0
Oil revenues (AKZ billion) (C)	**4,552**	**6,271**	**6,728**	**6,516**	**5,812**	**4,182**	**4,227**	**5,344**	**9,636**	**10,369**	**12,981**
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**	**3,715**	**3,568**	**5,581**
Implied tax rate (oil-related) = (D) / (C)	*54.9%*	*60.9%*	*61.0%*	*55.7%*	*51.1%*	*45.4%*	*32.5%*	*37.6%*	*38.6%*	*34.4%*	*43.0%*

(1) Revised Budget; (2) Budget Proposal; (3) We assume an adjustment of 20% to the US$/AKZ exchange rate in 2020. Sources: Angolan authorities and Eaglestone Securities.

As an example, if the average oil price reaches US$ 65 in 2020 (vs. the existing forecast of US$ 55) and assuming the same implied tax rate of 43.0% then total revenues would be 11.8% higher than the current budget forecast. This also means that the budget surplus would reach 3.6% of GDP next year rather than the current projection of 1.2% of GDP for the same level of expenditures. On the other hand, if the oil price averages US$ 50 in 2020 this would mean that revenues would be 5.9% lower than the current projection and the government would reach a balanced budget.

If the average oil price reaches US$ 65 in 2020 then total revenues would be 11.8% higher than the government's current forecast

TABLE 2: Change in Revenues vs Budget 2020

		Average Oil Price (US$)					
		50.0	52.5	55.0	57.5	60.0	65.0
Implied Tax Rate	35.0%	-16.8%	-14.4%	-12.0%	-9.6%	-7.2%	-2.4%
	40.0%	-10.0%	-7.2%	-4.5%	-1.8%	1.0%	6.5%
	43.0%	-5.9%	-2.9%	0.0%	2.9%	5.9%	11.8%
	45.0%	-3.1%	-0.1%	3.0%	6.1%	9.2%	15.4%
	47.5%	0.3%	3.5%	6.8%	10.1%	13.3%	19.8%

Source: Eaglestone Securities.

TABLE 3: Overall Fiscal Balance (% of GDP)

		Average Oil Price (US$)					
US$ million		50.0	52.5	55.0	57.5	60.0	65.0
Implied Tax Rate	35.0%	-2.2%	-1.7%	-1.2%	-0.7%	-0.2%	0.7%
	40.0%	-0.8%	-0.2%	0.3%	0.9%	1.4%	2.6%
	43.0%	0.0%	0.6%	1.2%	1.8%	2.4%	3.6%
	45.0%	0.6%	1.2%	1.9%	2.5%	3.1%	4.4%
	47.5%	1.3%	2.0%	2.6%	3.3%	4.0%	5.3%

Source: Eaglestone Securities.

TABLE 4 - GOVERNMENT ACCOUNTS		SENSITIVITY TO OIL PRICES (US$/BARREL)					
AKZ BILLION	2020 Budget	50.0	52.5	55.0	57.5	60.0	65.0
Scenario 1 (Oil Tax Rate of 35.0%):							
Revenues	**8,611**	**7,161**	**7,368**	**7,574**	**7,781**	**7,987**	**8,400**
% of GDP	*20.4%*	*17.0%*	*17.5%*	*18.0%*	*18.5%*	*19.0%*	*19.9%*
Tax Revenues	8,097	6,647	6,854	7,060	7,267	7,473	7,886
Oil Revenues	5,581	4,130	4,337	4,543	4,750	4,957	5,370
% of Total Tax Revenues	*68.9%*	*62.1%*	*63.3%*	*64.4%*	*65.4%*	*66.3%*	*68.1%*
Change in Revenues vs. 2020 Budget		*-16.8%*	*-14.4%*	*-12.0%*	*-9.6%*	*-7.2%*	*-2.4%*
Scenario 2 (Oil Tax Rate of 40.0%):							
Revenues	**8,611**	**7,751**	**7,987**	**8,223**	**8,459**	**8,695**	**9,167**
% of GDP	*20.4%*	*18.4%*	*19.0%*	*19.5%*	*20.1%*	*20.6%*	*21.8%*
Tax Revenues	8,097	7,237	7,473	7,709	7,945	8,181	8,653
Oil Revenues	5,581	4,721	4,957	5,193	5,429	5,665	6,137
% of Total Tax Revenues	*68.9%*	*65.2%*	*66.3%*	*67.4%*	*68.3%*	*69.2%*	*70.9%*
Change in Revenues vs. 2020 Budget		*-10.0%*	*-7.2%*	*-4.5%*	*-1.8%*	*1.0%*	*6.5%*
Scenario 3 (Oil Tax Rate of 43.0%):							
Revenues	**8,611**	**8,104**	**8,357**	**8,611**	**8,865**	**9,118**	**9,626**
% of GDP	*20.4%*	*19.2%*	*19.8%*	*20.4%*	*21.0%*	*21.6%*	*22.8%*
Tax Revenues	8,097	7,590	7,843	8,097	8,351	8,604	9,112
Oil Revenues	5,581	5,073	5,327	5,581	5,834	6,088	6,595
% of Total Tax Revenues	*68.9%*	*66.8%*	*67.9%*	*68.9%*	*69.9%*	*70.8%*	*72.4%*
Change in Revenues vs. 2020 Budget		*-5.9%*	*-2.9%*	*0.0%*	*2.9%*	*5.9%*	*11.8%*
Scenario 4 (Oil Tax Rate of 45.0%):							
Revenues	**8,611**	**8,341**	**8,607**	**8,872**	**9,138**	**9,403**	**9,934**
% of GDP	*20.4%*	*19.8%*	*20.4%*	*21.1%*	*21.7%*	*22.3%*	*23.6%*
Tax Revenues	8,097	7,827	8,093	8,358	8,624	8,889	9,420
Oil Revenues	5,581	5,311	5,576	5,842	6,107	6,373	6,904
% of Total Tax Revenues	*68.9%*	*67.8%*	*68.9%*	*69.9%*	*70.8%*	*71.7%*	*73.3%*
Change in Revenues vs. 2020 Budget		*-3.1%*	*-0.1%*	*3.0%*	*6.1%*	*9.2%*	*15.4%*
Scenario 5 (Oil Tax Rate of 47.5%):							
Revenues	**8,611**	**8,636**	**8,916**	**9,197**	**9,477**	**9,757**	**10,318**
% of GDP	*20.4%*	*20.5%*	*21.2%*	*21.8%*	*22.5%*	*23.2%*	*24.5%*
Tax Revenues	8,097	8,122	8,402	8,683	8,963	9,243	9,804
Oil Revenues	5,581	5,606	5,886	6,166	6,446	6,727	7,287
% of Total Tax Revenues	*68.9%*	*69.0%*	*70.0%*	*71.0%*	*71.9%*	*72.8%*	*74.3%*
Change in Revenues vs. 2020 Budget		*0.3%*	*3.5%*	*6.8%*	*10.1%*	*13.3%*	*19.8%*
Non-oil Revenues	2,517	2,517	2,517	2,517	2,517	2,517	2,517
Non-tax Revenues	514	514	514	514	514	514	514
Expenditures	**8,092**	**8,092**	**8,092**	**8,092**	**8,092**	**8,092**	**8,092**
% of GDP	*19.2%*	*19.2%*	*19.2%*	*19.2%*	*19.2%*	*19.2%*	*19.2%*
Current Expenditures	6,761	6,761	6,761	6,761	6,761	6,761	6,761
Scenario 1 (Oil Tax Rate of 35.0%):							
Primary Fiscal Balance	**1,850**	**400**	**607**	**813**	**1,020**	**1,226**	**1,639**
% of GDP	*4.4%*	*0.9%*	*1.4%*	*1.9%*	*2.4%*	*2.9%*	*3.9%*
Overall Fiscal Balance	519	-931	-724	-518	-311	-105	308
% of GDP	*1.2%*	*-2.2%*	*-1.7%*	*-1.2%*	*-0.7%*	*-0.2%*	*0.7%*
Scenario 2 (Oil Tax Rate of 40.0%):							
Primary Fiscal Balance	**1,850**	**990**	**1,226**	**1,462**	**1,698**	**1,934**	**2,406**
% of GDP	*4.4%*	*2.4%*	*2.9%*	*3.5%*	*4.0%*	*4.6%*	*5.7%*
Overall Fiscal Balance	519	-341	-105	131	367	604	1,076
% of GDP	*1.2%*	*-0.8%*	*-0.2%*	*0.3%*	*0.9%*	*1.4%*	*2.6%*
Scenario 3 (Oil Tax Rate of 43.0%):							
Primary Fiscal Balance	**1,850**	**1,343**	**1,597**	**1,850**	**2,104**	**2,358**	**2,865**
% of GDP	*4.4%*	*3.2%*	*3.8%*	*4.4%*	*5.0%*	*5.6%*	*6.8%*
Overall Fiscal Balance	519	12	266	519	773	1,027	1,534
% of GDP	*1.2%*	*0.0%*	*0.6%*	*1.2%*	*1.8%*	*2.4%*	*3.6%*
Scenario 4 (Oil Tax Rate of 45.0%):							
Primary Fiscal Balance	**1,850**	**1,580**	**1,846**	**2,111**	**2,377**	**2,642**	**3,173**
% of GDP	*4.4%*	*3.8%*	*4.4%*	*5.0%*	*5.6%*	*6.3%*	*7.5%*
Overall Fiscal Balance	519	249	515	781	1,046	1,312	1,843
% of GDP	*1.2%*	*0.6%*	*1.2%*	*1.9%*	*2.5%*	*3.1%*	*4.4%*
Scenario 5 (Oil Tax Rate of 47.5%):							
Primary Fiscal Balance	**1,850**	**1,875**	**2,156**	**2,436**	**2,716**	**2,996**	**3,557**
% of GDP	*4.4%*	*4.5%*	*5.1%*	*5.8%*	*6.4%*	*7.1%*	*8.4%*
Overall Fiscal Balance	519	544	825	1,105	1,385	1,666	2,226
% of GDP	*1.2%*	*1.3%*	*2.0%*	*2.6%*	*3.3%*	*4.0%*	*5.3%*

Source: Angolan authorities and Eaglestone Securities.

ANNEX – ECONOMIC FORECAST SUMMARY

ANGOLA ECONOMIC FORECASTS	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Gross Domestic Product (annual growth)									
Real GDP	5.0%	4.8%	0.9%	-2.6%	-0.1%	-1.2%	-1.1%	1.8%	2.9%
Oil Sector	-0.9%	-2.5%	11.1%	-2.7%	-5.3%	-9.5%	-5.2%	1.5%	1.0%
Non-oil sector	8.7%	9.2%	-4.4%	-2.5%	1.2%	1.0%	0.6%	1.9%	4.0%
Gross Domestic Product (current prices, AKZ bn)	13,195	14,324	13,950	16,550	20,262	26,778	31,474	36,238	40,500
Gross Domestic Product (current prices, US$ bn)	136.7	145.7	116.2	101.1	122.1	105.9	91.5	89.0	92.6
Population (million)	25.1	25.9	26.7	27.5	28.4	29.3	30.1	31.0	32.0
Gross Domestic Product per capita (US$)	5,437	5,626	4,355	3,677	4,304	3,621	3,038	2,868	2,897
Investment (% of GDP)									
Total Investment	26.1%	27.5%	34.2%	27.2%	24.1%	20.5%	20.1%	20.6%	20.8%
Gross National Savings	32.0%	29.8%	28.5%	24.5%	23.4%	26.5%	21.0%	19.9%	20.4%
External Sector									
Exports of Goods & Services (annual growth)	0.1%	-2.1%	6.7%	-0.7%	-4.8%	0.1%	0.7%	0.7%	0.2%
Imports of Goods & Services (annual growth)	9.1%	11.2%	-21.9%	-25.3%	0.1%	-8.6%	1.7%	-2.9%	0.0%
Current Account Balance (% of GDP)	6.1%	-2.6%	-8.8%	-4.8%	-0.5%	6.1%	0.9%	-0.7%	-0.4%
Oil Sector									
Production (million barrels)	626.2	610.3	649.7	638.4	643.2	583.0	553.6	560.9	569.3
Production (million bpd)	1.716	1.672	1.780	1.749	1.762	1.597	1.517	1.537	1.560
Price (US$ per barrel)	107.7	97.4	48.9	40.9	53.9	70.6	63.2	60.0	60.0
Consumer Price Inflation									
Consumer Prices (period average)	8.8%	7.3%	9.2%	30.7%	29.8%	19.6%	19.5%	26.4%	13.5%
Consumer Prices (end of period)	7.7%	7.5%	12.1%	41.1%	23.7%	18.6%	17.7%	25.0%	12.5%
General Government (% of GDP)									
Revenues	36.7%	30.7%	24.1%	17.5%	17.5%	21.9%	20.0%	20.9%	21.0%
Expenditures	37.1%	36.5%	27.1%	22.0%	23.8%	19.7%	19.2%	20.8%	20.7%
Fiscal Balance	-0.3%	-5.7%	-2.9%	-4.5%	-6.3%	2.2%	0.8%	0.1%	0.3%
Gross Debt	33.1%	39.8%	57.1%	75.7%	69.3%	89.0%	95.0%	89.9%	84.2%
Foreign Investment and Reserves									
Net Foreign Direct Investment (US$ mn)	-8,042	2,771	10,813	-453	-8,749	-5,738	-1,800	n.a.	n.a.
Net International Reserves (US$ bn)	31.2	27.2	24.3	20.8	13.6	10.6	10.7	10.9	11.2
Net International Reserves (in months of imports)	7.6	6.1	7.7	9.7	5.8	4.9	5.1	5.3	5.5
Exchange Rate									
Exchange Rate (period average, AKZ/US$)	96.5	98.3	120.1	163.7	165.9	252.9	360.0	450.0	473.7
Exchange Rate (end of period, AKZ/US$)	97.6	102.9	135.3	165.9	165.9	308.6	445.7	450.0	473.7

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

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Disclosures

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

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

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

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

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