



The Angolan Economy

A Challenging (Election) Year Ahead

Research

December 2021

Economic growth is expected to accelerate in 2022

The Angolan government's 2022 budget proposal recently presented to Parliament (and likely to be approved by mid-December) assumes that economic activity in the country will pick up significantly after a soft recovery of 0.2% expected this year. Specifically, real GDP is forecasted to advance 2.4% thanks to positive contributions from both the oil (1.6%) and non-oil (3.1%) sectors. We believe this forecast may be optimistic considering the downside risks still presented by the Covid-19 pandemic while remaining dependent on the speed of the vaccination process in the country. On this front, the government aims to have 95% of the population inoculated by the end of 2022 (vs. c20% currently). The budget proposal also assumes that oil output will improve slightly to 1.148 million bpd and crude prices will average US\$ 59.0 (vs. US\$ 67.5 this year), which the government admits is a conservative estimate.

Economics

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The government projects a very modest budget surplus

Next year's budget proposal amounts to AKZ 18,745 billion, standing 26.8% above the 2021 budget and 11.2% ahead of the expected figure for this year. The proposal assumes that the government will reach a very modest surplus of AKZ 1.5 billion in 2022 (equivalent to 0.0% of GDP) following a surplus of 3.0% expected this year and a deficit of -2.3% projected in the 2021 budget. The government also forecasts a primary surplus (excl. debt payments) of 5.5%, below the surplus of 7.7% this year.

Higher revenues from non-oil sector and spending related to the pandemic

The higher revenue projections (11.1%) reflect an improvement in both tax and non-tax related receipts. In particular, tax revenues are expected to increase 7.6% thanks to a larger contribution from the non-oil sector (17.3%), as taxes from the oil sector see a relatively modest 1.2% increase. On the other hand, expenditures are expected to rise 29.4% due to the sharp increases in the amount of spending on goods and services (58.1%), interest payments (29.8%) and transfers (71.7%). These are mostly related to the continued impact of the pandemic on the Angolan economy, including the need to maintain the support to households, companies and the informal sector.

Nearly half of public expenditures to be allocated to debt service payments

The government expects to finance its 2022 budget by once again relying relatively more on public receipts, mainly taxes (57.2% of total revenues), as opposed to debt financing. The projected amount of debt financing is still anticipated to rise though (11.3%) and account for 36.7% of total receipts, as higher financing in the domestic market outweighs the impact of lower overseas financing in the period. In terms of expenditures, it is worth highlighting that nearly half of public spending is likely to be allocated to debt service payments (debt amortization plus interest).

Target to lower public debt to 60% of GDP over the long-term, but...

Preliminary figures indicate that public debt declined to 84.8% of GDP in September 2021, which compares with a historically high 128.7% in 2020. This more favorable evolution is due to the impact of the primary surpluses recorded in recent years, as well as the stabilization of the kwanza exchange rate in 2021. That said, it remains imperative for the Angolan authorities to continue to adopt measures to lower public debt levels with the aim of reaching the target of 60% of GDP over the long-term. In order to reach this objective, the non-oil sector primary fiscal deficit will have to remain consistently at a level equal to or below 5% of GDP until 2025, which, in the upcoming election year, the 2022 budget proposal already assumes will not happen.

BUDGET PROPOSAL (2022)

Macroeconomic Projections

The Angolan economy has shown some signs of stabilization this year after the impacts from the Covid-19 pandemic led to an unprecedented contraction in real GDP of 5.4% in 2020. This was the fifth consecutive year of recession in the country, with both the oil and gas (-8.3%) and the non-oil (-4.0%) sectors witnessing a decline from the previous year. Specifically, activity in the oil and gas sector was impacted by the continued drop in production, while oil prices were under pressure due to lower demand for crude resulting from the global economic recession. The non-oil sector was largely impacted by the restrictions imposed to control the spread of the pandemic, which mostly affected activity in the commerce and manufacturing sectors.

Meanwhile, the improvement in the country's economic environment in 2021 has been led by a recovery in the non-oil sector, as oil and gas activity remains quite depressed. The government expects real GDP growth of 5.2% in the non-oil sector mainly to reflect a positive contribution from the commerce and manufacturing sectors as well as a better performance in agriculture and fishing. On the other hand, the oil sector is expected to contract -10.6% from the previous year as a result of the impact from the persistent reduction in oil output. This is anticipated to more than outweigh the favorable effect from the higher than initially expected oil prices in the period. Overall, the government forecasts real GDP growth of 0.2% this year, which is slightly better than its previous estimate of flat growth predicted in the 2021 budget.

General elections will take place in Angola later in 2022. The budget proposal presented by the government anticipates that economic growth will accelerate to 2.4% next year, as both the oil and gas and non-oil sectors are expected to have a positive contribution to real GDP growth. The slight recovery of 1.6% in activity in the oil sector is expected to reflect an improvement in oil and gas production (more details below), while the forecasted growth of 3.1% in the non-oil sector reflects a recovery (or improvement) in all economic sectors in the period.

We note the anticipated recovery of 2.4% in the construction sector (from a likely contraction of -10.0% this year), as this is the third largest sector of the economy representing nearly 9% of GDP. According to the government, the increased activity expected in construction will be due to the number of projects that will be implemented starting in the last quarter of 2021 under the Integrated Program of Municipal Intervention (*Programa Integrado de Intervenção nos Municípios*) that aims to increase the autonomy of the country's 164 municipalities.

The Angolan economy has stabilized this year after the impacts from the pandemic aggravated the recession in 2020

The improvement in the economic situation in 2021 has been led by a recovery in the non-oil sector, as the oil sector remains quite depressed

The government forecasts real GDP growth of 2.4% in 2022

Activity in the construction sector is likely to recover after a sharp contraction this year

ECONOMIC ACTIVITY	2017	2018	2019	2020	2021 (1)	2021 (2)	2022 (1)
Real GDP Growth	-0.1%	-2.0%	-0.6%	-5.4%	0.0%	0.2%	2.4%
- Oil and Gas	-5.3%	-9.4%	-6.5%	-8.3%	-6.2%	-10.6%	1.6%
- Non-oil	1.2%	-0.1%	2.4%	-4.0%	2.1%	5.2%	3.1%
Agriculture	1.4%	-2.0%	0.8%	5.6%	2.5%	4.6%	4.3%
Fishing	-1.1%	-17.1%	-14.8%	-1.3%	1.2%	33.0%	4.0%
Extractive Industry	-0.8%	-6.3%	8.5%	-12.3%	14.3%	-9.6%	10.0%
Manufacturing	1.2%	4.8%	0.8%	-1.5%	1.9%	2.0%	5.0%
Construction	2.5%	0.4%	4.9%	1.1%	1.3%	-10.0%	2.4%
Energy	-1.7%	22.3%	5.4%	7.8%	5.0%	5.0%	4.0%
Commerce	1.5%	-0.2%	1.3%	-3.3%	1.8%	6.8%	2.3%
Other	0.3%	2.2%	2.3%	-3.2%	0.0%	1.9%	1.5%

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

Inflation accelerated sharply to 25.1% in 2020 (from 17.1% in the previous year), interrupting a downward trajectory recorded since 2016. The increase in consumer prices was mostly justified by the negative effects of the pandemic, namely (1) the negative supply shock of the Covid-19 restriction measures, (2) the increased liquidity from measures implemented by the central bank and (3) higher prices of agriculture commodities in international markets. Inflation was also impacted by the implementation of VAT on several goods and the deterioration in import rights over several products included in the basic goods basket.

Inflation pressures remained in 2021, despite the stabilization of the kwanza against the dollar and the euro, following the trend that has been witnessed in the rest of the world. The increase in prices is largely due to (1) the higher cost of food items in international markets, (2) the persistent constraint in supply chains and (3) adverse weather conditions. As a result, annual inflation is expected to reach 26.8% this year and should only start to decrease in 2022, when the government expects it to stand at 18.0% by year-end.

Inflation accelerated in 2020 and interrupted the downward trajectory witnessed since 2016

Inflation pressures remain in 2021, following the trend witnessed in the rest of the world

The 2022 budget proposal assumes that crude prices will average US\$ 59 per barrel, which is lower than the US\$ 67.5 expected this year, but significantly higher than the US\$ 39 included in the 2021 budget. It is worth noting that the government admits that this is a conservative assumption. The government also foresees average daily oil production reaching 1.148 million barrels in 2022. This is slightly higher than the 1.130 million barrels estimated for this year and reflects the increased activity in oil blocks 18, 2/05, 15/06 and 0, with this impact more than compensating the lower production predicted in blocks 15, 32, 31 and 17.

The 2022 budget proposal assumes that oil prices will average US\$ 59 and output will see a slight recovery from the previous year

ECONOMIC INDICATORS							
	2017	2018	2019	2020	2021 (1)	2021 (2)	2022 (1)
Inflation	23.7%	18.6%	17.1%	25.1%	18.7%	26.8%	18.0%
Diamond Production (Thousand Carats)	8,964.1	9,433.9	9,121.5	7,910.0	9,141.0	7,182.3	10,055.0
Diamond Average Price (US\$/Carat)	115.1	144.1	142.3	120.7	184.6	184.6	184.6
Annual Oil and LNG Production	722.6	658.2	638.7	580.7	558.7	542.9	553.2
Oil Production (MBbl)	597.6	539.8	504.8	463.9	445.3	412.6	419.0
LNG Production (MBOE)	125.0	118.4	133.9	116.8	113.4	130.3	134.2
Daily Oil Production (Million Bbl/day)	1.637	1.479	1.383	1.271	1.220	1.130	1.148
Average Oil Price (US\$/Bbl)	53.9	70.6	65.2	41.3	39.0	67.5	59.0
Average LNG Price (US\$/BOE)	29.0	47.9	29.2	24.4	26.7	26.7	33.0
Nominal GDP (AKZ billion)	20,262.3	25,627.7	30,625.0	34,368.7	41,999.4	49,441.5	54,578.2
Oil	4,240.0	7,652.7	9,454.6	8,943.8	10,036.3	15,945.5	13,825.4
Non-oil	16,022.3	17,975.0	21,170.4	25,424.8	31,963.0	33,496.0	40,752.8

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

Government Accounts

The 2022 budget proposal amounts to AKZ 18,745 billion, representing an increase of 26.8% from this year's initial budget proposal and standing 11.2% above the government's expected figure for this year. The proposal assumes that the government will reach a very modest surplus of AKZ 1.5 billion (equivalent to 0.0% of GDP) in 2022 following a budget surplus of 3.0% of GDP expected this year and a deficit of -2.3% of GDP assumed in the initial proposal. The government also projects a primary surplus equivalent to 5.5% of GDP, below the surplus of 7.7% expected for this year (the 2021 budget assumed a surplus of 4.3% of GDP).

The budget proposal assumes fiscal balance equivalent to 0.0% of GDP following a surplus of 3.0% of GDP expected this year

In the 2022 budget proposal, the government forecasts that total revenues and expenditures will reach AKZ 11,637 billion and AKZ 11,636 billion, respectively. This represents an increase of 11.1% in revenues and 29.4% in expenditures relatively to the figures expected for 2021. These projections also stand 43.6% and 28.1% above the numbers included in the 2021 initial budget proposal, respectively, as shown in the table below.

Revenues are forecasted to increase by 11.1% and expenditures by 29.4% from the figures expected for this year

GOVERNMENT ACCOUNTS						Change			
	2019 (1)	2020 (1)	2021 (2)	2021 (1)	2022 (2)	2021 (2) / 2020 (1)	2021 (1) / 2020 (1)	2022 (2) / 2021 (2)	2022 (2) / 2021 (1)
Revenues	6,547	7,054	8,105	10,475	11,637	14.9%	48.5%	43.6%	11.1%
Tax Revenues	6,075	6,605	7,488	9,975	10,730	13.4%	51.0%	43.3%	7.6%
Oil Revenues	3,953	3,612	4,059	6,043	6,118	12.4%	67.3%	50.7%	1.2%
Non-oil Revenues	2,122	2,993	3,428	3,933	4,612	14.5%	31.4%	34.5%	17.3%
Non-tax Revenues	473	449	617	500	908	37.5%	11.2%	47.1%	81.7%
Expenditures	6,364	7,700	9,087	8,992	11,636	18.0%	16.8%	28.1%	29.4%
Current Expenditures	5,237	5,928	7,563	7,218	9,623	27.6%	21.8%	27.2%	33.3%
Wages	1,999	2,067	2,484	2,484	2,675	20.1%	20.1%	7.7%	7.7%
Goods and Services	844	966	1,382	1,512	2,392	43.1%	56.6%	73.0%	58.1%
Interests	1,794	2,300	2,802	2,328	3,021	21.8%	1.2%	7.8%	29.8%
Transfers	600	595	894	894	1,536	50.3%	50.3%	71.7%	71.7%
Capital Expenditure	1,127	1,772	1,524	1,774	2,013	-14.0%	0.1%	32.1%	13.5%
Primary Fiscal Balance	1,977	1,654	1,821	3,811	3,022	10.1%	130.4%	66.0%	-20.7%
Overall Fiscal Balance	183	-646	-982	1,483	1	52.1%	n.m.	n.m.	-99.9%
Non-oil Primary Balance	-1,975	-1,958	-2,239	-2,232	-3,096	14.3%	14.0%	38.3%	38.7%
Non-oil Total Balance	-3,769	-4,258	-5,041	-4,560	-6,117	18.4%	7.1%	21.3%	34.1%

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

The higher revenues projected for 2022 reflect an improvement in both tax and non-tax related receipts. In particular, tax revenues are expected to increase 7.6% (when compared with the current estimates for this year) thanks to a larger contribution from the non-oil sector (17.3%), as taxes from the oil sector are expected to see a relatively modest 1.2% increase in the period. However, the latter stand 50.7% above the projections included in the 2021 budget proposal

Revenues are expected to increase across the board, in particular non-oil tax receipts and non-tax related revenues

due to the much higher oil price assumed in the 2022 budget (US\$ 59 vs. US\$ 39), which more than offsets the impact from the lower production forecasted for the period.

The government plans to continue to implement several measures to improve its revenue base, namely related to the implementation of VAT rules on several goods and transactions as well as the increased taxation in the export of some domestic products (food and medication) and the import of several items. These measures also include structural reforms already in place, including (1) those aimed at improving tax collection, (2) the continued implementation of the current privatization program (PROPRIV) and (3) the continued decentralization of power to the local municipalities.

The government plans to continue to implement several measures to improve its revenue base

In terms of expenditures, the government is anticipating current expenditures to increase 33.3% and capital expenditures to advance by a more modest 13.5% when compared with the figures projected for 2021. We highlight the sharp increases in the amount of spending on goods and services (58.1%), interest payments (29.8%) and transfers (71.7%) expected in 2022. These are mostly related to the continued impact of the pandemic on the Angolan economy, including the need to increase spending for the ongoing vaccination process of the local population and the measures that the government plans to continue to implement in order to protect employment, support families and workers as well as companies and the informal sector. In terms of interest payments, the increase is related to the end of the G20 and Paris Club Debt Service Suspension Initiative that Angola was part of in 2020 and in the second half of 2021.

The increase in current expenditures also reflects the impact of the Covid-19 pandemic, including the spending associated with the vaccination of the local population, the continued support to households and companies and the end of the waiver on debt service payments

The government said that it also plans to continue to undertake several reforms in terms of public expenditures during 2022. These include (1) improving the management of arrears, (2) reforming several state-owned enterprises and adapting them to international best practices in terms of property rights, governance, management accountability, internal control and audit and (3) implementing structural improvements in the public sector hiring process, namely by imposing a more competitive environment and making the hiring process simpler, more robust and more transparent.

The government plans to continue to implement reforms in terms of (1) improving the management of arrears, (2) reforming state-owned enterprises and (3) improving public sector hiring

Overall, total revenues and expenditures are projected to represent 21.3% of GDP (vs. 21.2% and 18.2% of GDP expected for this year, respectively), with oil-related tax receipts reaching 11.2%. On the other hand, current expenditures are expected to account for 17.6% of GDP (vs. 14.6% of GDP this year) after higher spending on goods and services, interests and transfers.

Revenues and expenditures are expected to represent 21.3% of GDP

GOVERNMENT ACCOUNTS	% of GDP									
	2014	2015	2016	2017	2018	2019 (1)	2020 (1)	2021 (2)	2021 (1)	2022 (2)
Revenues	35.3%	27.3%	17.4%	17.5%	22.9%	21.4%	20.5%	19.3%	21.2%	21.3%
Tax Revenues	32.9%	24.7%	15.6%	15.8%	21.1%	19.8%	19.2%	17.8%	20.2%	19.7%
Oil Revenues	23.8%	15.4%	8.2%	9.9%	14.5%	12.9%	10.5%	9.7%	12.2%	11.2%
Non-oil Revenues	9.1%	9.3%	7.4%	5.9%	6.6%	6.9%	8.7%	8.2%	8.0%	8.4%
Non-tax Revenues	2.4%	2.6%	1.8%	1.7%	1.8%	1.5%	1.3%	1.5%	1.0%	1.7%
Expenditures	41.9%	30.6%	21.9%	23.8%	20.8%	20.8%	22.4%	21.6%	18.2%	21.3%
Current Expenditures	29.4%	24.7%	18.0%	17.3%	16.1%	17.1%	17.2%	18.0%	14.6%	17.6%
Wages	10.6%	11.3%	8.4%	7.4%	6.0%	6.5%	6.0%	5.9%	5.0%	4.9%
Goods and Services	10.0%	6.4%	3.7%	4.1%	3.4%	2.8%	2.8%	3.3%	3.1%	4.4%
Interests	1.2%	2.0%	2.8%	3.3%	4.7%	5.9%	6.7%	6.7%	4.7%	5.5%
Transfers	7.6%	5.0%	3.1%	2.3%	1.9%	2.0%	1.7%	2.1%	1.8%	2.8%
Capital Expenditure	12.5%	6.0%	3.9%	6.5%	4.6%	3.7%	5.2%	3.6%	3.6%	3.7%
Primary Fiscal Balance	-5.4%	-1.3%	-1.7%	-3.0%	6.8%	6.5%	4.8%	4.3%	7.7%	5.5%
Overall Fiscal Balance	-6.6%	-3.3%	-4.5%	-6.3%	2.1%	0.6%	-1.9%	-2.3%	3.0%	0.0%
Non-oil Primary Balance (3)	-44.6%	-21.8%	-12.2%	-16.3%	-10.9%	-9.3%	-7.7%	-7.0%	-6.7%	-7.6%
Non-oil Total Balance (3)	-46.4%	-24.4%	-15.7%	-20.5%	-17.7%	-17.8%	-16.7%	-15.8%	-13.6%	-15.0%

(1) Preliminary; (2) Initial Budget; (3) % of non-oil GDP. Sources: Angolan authorities and Eaglestone Securities.

Oil-related tax receipts are expected to continue to represent the majority of revenues, standing at 52.6% of the total in 2022. This figure is below the 57.7% projected for this year, but above the 50.1% included in the 2021 budget. This is partly due to the lower oil price assumption in the 2022 budget proposal and the impact that it is expected to have on fiscal receipts from the oil sector. On the other hand, the contribution from non-oil tax receipts and non-tax receipts are projected to increase compared with the forecasts for this year.

Tax receipts from the oil sector will continue to represent the majority of revenues

Also worth noting is the proportion of public spending going toward the payment of transfers in 2022. Indeed, the amount of transfers is expected to represent 13.2% of total expenditures, a figure that is significantly higher than the ones recorded in recent years, whereas spending on

Transfers are expected to represent 13.2% of total expenditures, significantly

the salaries of public sector workers is expected to represent a relatively low 23.0% of total expenditures. *higher than in previous years*

GOVERNMENT ACCOUNTS	% of Total									
	2014	2015	2016	2017	2018	2019 (1)	2020 (1)	2021 (2)	2021 (1)	2022 (2)
Revenues										
Tax Revenues (Oil)	67.5%	56.4%	47.3%	56.7%	63.4%	60.4%	51.2%	50.1%	57.7%	52.6%
Tax Revenues (Non-Oil)	25.6%	34.0%	42.3%	33.7%	28.9%	32.4%	42.4%	42.3%	37.5%	39.6%
Non-tax Revenues	6.9%	9.6%	10.4%	9.6%	7.7%	7.2%	6.4%	7.6%	4.8%	7.8%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditures										
Current Expenditures	70.2%	80.5%	82.3%	72.6%	77.7%	82.3%	77.0%	83.2%	80.3%	82.7%
Wages	25.3%	36.8%	38.3%	31.3%	28.9%	31.4%	26.8%	27.3%	27.6%	23.0%
Goods and Services	23.9%	20.9%	17.1%	17.4%	16.6%	13.3%	12.5%	15.2%	16.8%	20.6%
Interests	2.8%	6.6%	12.9%	14.0%	22.8%	28.2%	29.9%	30.8%	25.9%	26.0%
Transfers	18.2%	16.2%	14.0%	9.8%	9.3%	9.4%	7.7%	9.8%	9.9%	13.2%
Capital Expenditure	29.8%	19.5%	17.7%	27.4%	22.3%	17.7%	23.0%	16.8%	19.7%	17.3%
Total Expenditures	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

In terms of expenditures by sector, the government expects to spend AKZ 9,439 billion in 2022 if excluding spending on public debt operations. This is 35.0% more than what it forecasted in the 2021 budget and results from higher expenditures in all sectors (social, economic, defense, security and social order as well as general public services). We note that public debt amortization is anticipated to see an increase of 19.4% in the period and account for 49.6% of total budgeted expenditures (vs. 52.7% of the total projected in the 2021 budget).

Total expenditures (excluding spending on public debt operations) are expected to increase 35.0%

As detailed in the table below, planned expenditures on the social sector are projected to stand 28.2% above the 2021 budget figure as a result of strong increases in spending on housing and education. The social sector is expected to remain by far the most relevant in terms of expenditures, representing 38.1% of primary expenditures (excluding public debt operations) and 19.2% of total expenditures.

The social sector will remain by far the most relevant in terms of expenditures

The higher expenditures in the economic sector (28.0%) reflects a sharp increase in spending on transports and on the extractive industry, manufacturing and construction, with this sector expected to account for 14.6% of primary expenditures and 7.4% of the total expenditures. Defense, security and social order is anticipated to rise by 18.1% while spending on general public services sees an increase of 62.9%. These sectors are expected to represent 16.7% and 30.5% of primary expenditures, respectively.

Spending on defense, security and social order is expected to increase 18.1%

EXPENDITURES BY SECTOR	Change		% Total Exp. (1)		% Total Exp.		% of GDP		
	2021	2022	2022 / 2021	2021	2022	2021	2022	2021	2022
AKZ BILLION									
Social Sector	2,806	3,597	28.2%	40.1%	38.1%	19.0%	19.2%	6.7%	6.6%
Education	1,023	1,242	21.4%	14.6%	13.2%	6.9%	6.6%	2.4%	2.3%
Health	851	924	8.5%	12.2%	9.8%	5.8%	4.9%	2.0%	1.7%
Social Protection	561	655	16.7%	8.0%	6.9%	3.8%	3.5%	1.3%	1.2%
Housing	314	706	124.7%	4.5%	7.5%	2.1%	3.8%	0.7%	1.3%
Other	56	71	26.4%	0.8%	0.8%	0.4%	0.4%	0.1%	0.1%
Economic Sector	1,079	1,380	28.0%	15.4%	14.6%	7.3%	7.4%	2.6%	2.5%
Agriculture, Fishing	274	324	18.3%	3.9%	3.4%	1.9%	1.7%	0.7%	0.6%
Transports	318	509	59.8%	4.6%	5.4%	2.2%	2.7%	0.8%	0.9%
Fuel and Energy	402	416	3.4%	5.8%	4.4%	2.7%	2.2%	1.0%	0.8%
Extractive Ind., Manufacturing, Construction	34	68	98.2%	0.5%	0.7%	0.2%	0.4%	0.1%	0.1%
General Economic Matters	32	37	15.7%	0.5%	0.4%	0.2%	0.2%	0.1%	0.1%
Other	18	27	49.7%	0.3%	0.3%	0.1%	0.1%	0.0%	0.0%
Defense, Security and Social Order	1,336	1,578	18.1%	19.1%	16.7%	9.0%	8.4%	3.2%	2.9%
Defense	627	790	26.0%	9.0%	8.4%	4.2%	4.2%	1.5%	1.4%
Security and Social Order	709	788	11.2%	10.1%	8.4%	4.8%	4.2%	1.7%	1.4%
General Public Services and Other	1,769	2,883	62.9%	25.3%	30.5%	12.0%	15.4%	4.2%	5.3%
Total Expend. (Ex. Public Debt Operations)	6,990	9,439	35.0%	100.0%	100.0%	47.3%	50.4%	16.6%	17.3%
Public Debt Operations	7,796	9,307	19.4%			52.7%	49.6%	18.6%	17.1%
Domestic	4,053	5,335	31.6%			27.4%	28.5%	9.6%	9.8%
Overseas	3,743	3,972	6.1%			25.3%	21.2%	8.9%	7.3%
Total Expenditures	14,785	18,745	26.8%			100.0%	100.0%	35.2%	34.3%

(1) Excluding Public Debt Operations. Sources: Angolan authorities and Eaglestone Securities.

The higher current revenues projected for 2022 relatively to this year's budget (43.6%) means that the government expects to finance its budget by once again relying comparatively more on public receipts, mainly taxes (57.2% of the total), as opposed to debt financing. The projected

The government will continue to rely on tax receipts to finance the 2022 budget

amount of debt financing is still expected to increase though, rising by 11.3% to AKZ 6,884 billion and account for 36.7% of total receipts (vs. 41.8% previously). In particular, debt financing in the domestic market is anticipated to stand 39.2% above the 2021 budget figure, while overseas financing is forecasted to see a decline of -4.1%.

The government also expects to see an increase of 7.8% in debt interest payments and of 30.8% in debt amortization compared with the 2021 budget and for these to represent 16.1% and 34.8% of the total expenditures, respectively. In other words, more than half of expenditures are likely to be allocated to debt service payments (debt amortization plus interest). The government is also planning to spend more on the salaries of public sector employees and significantly more on goods and services as well as on transfers.

Total debt amortization (interest and capital) is expected to represent more than 50% of total expenditures

FINANCING	AKZ Billion			Change		% of Total			% of GDP		
	2021 (1)	2021 (2)	2022 (1)	2022(1) / 2021(1)	2022(1) / 2021(2)	2021 (1)	2021 (2)	2022 (1)	2021 (1)	2021 (2)	2022 (1)
Receipts											
Current Revenues	8,105	10,475	11,637	43.6%	11.1%	54.8%	62.1%	62.1%	19.3%	21.2%	21.3%
Taxes	7,488	9,975	10,730	43.3%	7.6%	50.6%	59.1%	57.2%	17.8%	20.2%	19.7%
Oil Sector	4,059	6,043	6,118	50.7%	1.2%	27.5%	35.8%	32.6%	9.7%	12.2%	11.2%
Non-oil Sector	3,428	3,933	4,612	34.5%	17.3%	23.2%	23.3%	24.6%	8.2%	8.0%	8.4%
Social Contributions	328	328	336	2.3%	2.3%	2.2%	1.9%	1.8%	0.8%	0.7%	0.6%
Other	289	172	572	97.8%	233.3%	2.0%	1.0%	3.1%	0.7%	0.3%	1.0%
Asset Sales	156	13	224	44.0%	1623.8%	1.1%	0.1%	1.2%	0.4%	0.0%	0.4%
Financing	6,187	6,187	6,884	11.3%	11.3%	41.8%	36.7%	36.7%	14.7%	12.5%	12.6%
Domestic	2,191	3,760	3,050	39.2%	-18.9%	14.8%	22.3%	16.3%	5.2%	7.6%	5.6%
International	3,996	2,426	3,834	-4.1%	58.0%	27.0%	14.4%	20.5%	9.5%	4.9%	7.0%
Sovereign Wealth Fund	0	190	0	n.m.	-100.0%	0.0%	1.1%	0.0%	0.0%	0.4%	0.0%
Treasury Reserves	338	0	0	-100.0%	n.m.	2.3%	0.0%	0.0%	0.8%	0.0%	0.0%
Total Receipts	14,785	16,865	18,745	26.8%	11.2%	100.0%	100.0%	100.0%	35.2%	34.1%	34.3%
Expenditures											
Staff Costs	2,484	2,484	2,675	7.7%	7.7%	16.8%	14.7%	14.3%	5.9%	5.0%	4.9%
Wages	2,362	2,362	2,520	6.7%	6.7%	16.0%	14.0%	13.4%	5.6%	4.8%	4.6%
Goods and Services	1,382	1,512	2,392	73.0%	58.1%	9.3%	9.0%	12.8%	3.3%	3.1%	4.4%
Interests	2,802	2,328	3,021	7.8%	29.8%	19.0%	13.8%	16.1%	6.7%	4.7%	5.5%
Domestic	1,670	1,108	1,753	5.0%	58.3%	11.3%	6.6%	9.4%	4.0%	2.2%	3.2%
External	1,132	1,220	1,268	11.9%	3.9%	7.7%	7.2%	6.8%	2.7%	2.5%	2.3%
Transfers	894	894	1,536	71.7%	71.7%	6.0%	5.3%	8.2%	2.1%	1.8%	2.8%
Subsidies	210	210	873	316.0%	316.0%	1.4%	1.2%	4.7%	0.5%	0.4%	1.6%
Acquisition of Non-Fin. Assets	1,524	1,774	2,013	32.1%	13.5%	10.3%	10.5%	10.7%	3.6%	3.6%	3.7%
Debt Amortization	4,995	5,089	6,533	30.8%	28.4%	33.8%	30.2%	34.8%	11.9%	10.3%	12.0%
Domestic	2,921	3,477	4,314	47.7%	24.1%	19.8%	20.6%	23.0%	7.0%	7.0%	7.9%
External	2,074	1,613	2,218	7.0%	37.6%	14.0%	9.6%	11.8%	4.9%	3.3%	4.1%
Other Financial Investments	704	365	577	-18.0%	57.9%	4.8%	2.2%	3.1%	1.7%	0.7%	1.1%
Treasury Operations	0	2,419	0	n.m.	-100.0%	0.0%	14.3%	0.0%	0.0%	4.9%	0.0%
Total Expenditures	14,785	16,865	18,745	26.8%	11.2%	100.0%	100.0%	100.0%	35.2%	34.1%	34.3%

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

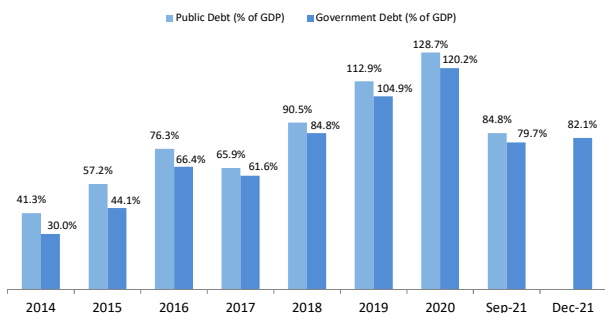
Meanwhile, according to preliminary figures, Angola's public debt declined to 84.8% of GDP in September 2021, while government debt stood at 79.7% of GDP. These figures compare with a historically high 128.7% and 120.2% of GDP, respectively, in 2020. Government debt is forecasted to reach 82.1% of GDP by end-2021, which means that total public debt is likely to reach about 87.5% in the same period. This more favorable evolution in public debt levels is due to the impact of the primary surpluses recorded in recent years, as well as the stabilization of the kwanza exchange rate in 2021. Recall that about two-thirds of the country's public debt is external debt and, as a result, it is denominated in foreign currency.

Public debt has declined in 2021 after reaching a historically high level of 128.7% of GDP in 2020

Other metrics clearly show the increased burden on Angola's public debt levels in recent years. For example, according to our calculations, the public debt-to-revenues and interest payments-to-revenues ratios reached 585% and 32.6%, respectively, in 2020. These ratios are expected to decline this year, but still remain at historically high levels.

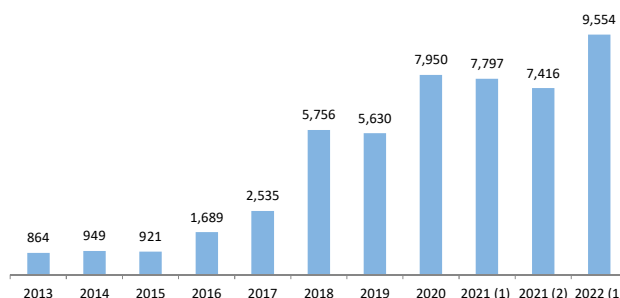
Some metrics clearly show the increased burden on Angola's public debt levels in recent years

PUBLIC DEBT AND GOVERNMENT DEBT (% OF GDP)



Source: Angolan authorities.

DEBT SERVICE PAYMENTS (AKZ BILLION)

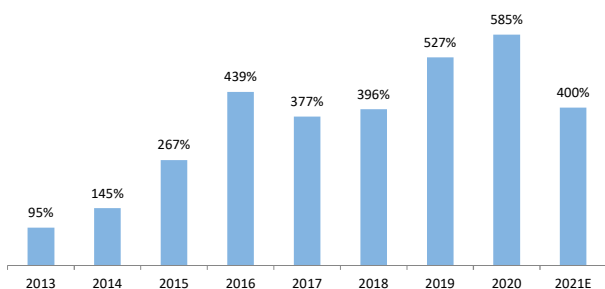


(1) Initial Budget; (2) Estimate. Source: Angolan authorities.

This makes it imperative for the Angolan authorities to continue to adopt measures to invert the recent upward trajectory in public debt levels. For this reason, the government reiterated its commitment to continue to implement fiscal consolidation measures, aiming to bring public debt down to 60% of GDP over the long-term. In order to reach this objective, the non-oil sector primary fiscal deficit will have to remain consistently at a level equal to or below 5% of GDP until 2025.

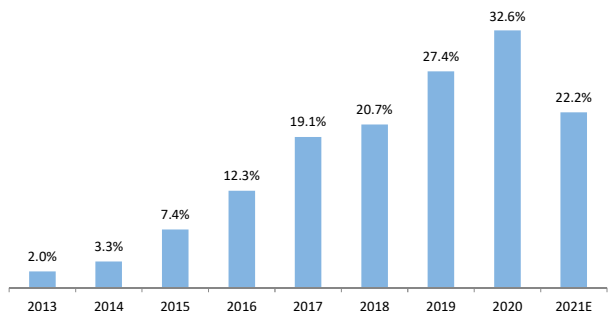
The government remains committed to gradually reducing public debt to 60% of GDP over the long-term

PUBLIC DEBT (% OF REVENUES)



Sources: Angolan authorities and Eaglestone Securities.

INTEREST PAYMENTS (% OF REVENUES)



Sources: Angolan authorities and Eaglestone Securities.

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Disclosures

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

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

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

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

EAGLESTONE SECURITIES

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