The Angolan Economy

Turning the Page on Recession in 2021?

Research
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Economics
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Lower oil production and prices and Covid-19 hit economic activity
Economic activity in Angola remained weak in 2020, with real GDP likely to have contracted by at least 4.0% YoY. This evolution reflected persistently declining oil production and low crude prices, but also the impacts of Covid-19 on non-oil related sectors. This means that activity in both the oil and non-oil sectors contracted for the first time since 2016. Meanwhile, inflation interrupted the downward trajectory that began in 2018 as a result of the effects of significant supply disruptions caused by the pandemic, the continued sharp depreciation of the kwanza and the modification of the VAT in September 2020. Annual inflation reached 25.1% in end-2020, well above the 16.9% recorded in the previous year. The BNA continued to allow a more flexible exchange rate to act as a shock absorber and began to gradually shift toward a tighter monetary policy stance in the second half of the year to contain inflationary pressures. In terms of fiscal policy, the government achieved a better than expected budgetary adjustment that included higher tax receipts and slightly lower expenses. This allowed for a lower fiscal deficit forecast of -1.5% of GDP.

IMF completes fourth review and disburses US$ 487.5 million
The IMF completed the fourth review of Angola's economic program supported by an extended arrangement under the Extended Fund Facility in January. This allowed for the disbursement of US$ 487.5 million, bringing total disbursements to US$ 3 billion. Recall that Angola's three-year extended arrangement was approved in December 2018 and amounted to US$ 3.7 billion. This amount was increased by US$ 765 million (lifting the total aid to about US$ 4.5 billion) at the time of the third review at the request of the government in order to support the efforts to attenuate the impact of the pandemic and sustain the implementation of structural reforms.

Program performance has been adequate since last review
The IMF concluded that the performance of the program has been adequate, with all but two indicative targets established for end-September 2020 being achieved. The exceptions were the central bank claims on the central government and the stock of public debt. The IMF also stated that, although only two of the eight structural benchmarks up to end-December 2020 were expected to be met, progress is being made on achieving the remaining six. In terms of fiscal policy, the Fund said that the 2021 budget consolidates the non-oil revenue gains and more muted expenditures of the 2020 budget, while protecting priority health and social spending. This should help reduce the dependence on oil revenues. Moreover, the implementation of debt reprofiling agreements and the extension of the debt service suspension initiative until end-June 2021 will provide important debt-service relief and help reduce the risks related to debt sustainability. Finally, the IMF said that continuing progress in financial sector reforms remains critical, especially completing the restructuring of BPC and BE, as well as the adoption of both the revised BNA Law and the revised Financial Institutions Law (both submitted to the National Assembly in 2020).

Relevant steps are being taken to help Angola come out of the recession
Angola continues to face significant risks related to its persistently high dependence on the oil sector, elevated debt levels and uncertain global economic backdrop. The authorities are taking relevant steps to help mitigate these risks including announcing a prudent 2021 budget, implementing an effective debt management strategy and pursuing a structural reform agenda that will hopefully support growth in the non-oil sector. It remains to be seen if these steps will suffice and allow the country to come out of its five-year recession in 2021.

ECONOMIC ACTIVITY AND INFLATION

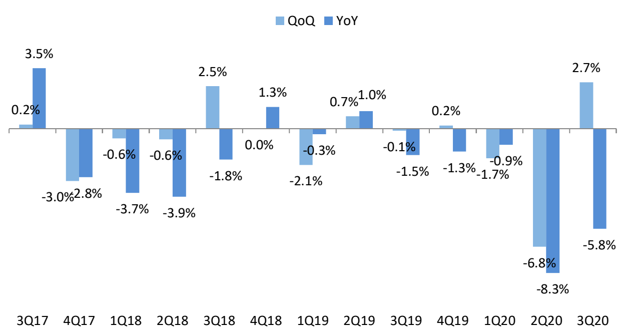
Economic activity recovered in Q3 2020 from the previous quarter, but fell by 5.8% YoY

The latest figures from the National Statistics Institute (INE) showed that economic activity in Angola recovered 2.7% QoQ in the period July-September 2020 after a sharp decline of 6.8% QoQ recorded in the previous three months that reflected what was considered the worst period of the Covid-19 pandemic. The sectors that had a more favorable contribution to growth during Q3 2020 were retail (1.6%), real estate (0.7%) and manufacturing industry (0.6%). On the other hand, the sectors that had a more significant drag on economic activity included construction (-1.3%), the oil and gas industry (-0.8%) and diamond extraction (-0.2%). Despite this quarterly recovery, real GDP was down 5.8% YoY in Q3 2020 after falling 8.3% YoY in the previous three months.

Real GDP contracted 5.0% YoY in the first three quarters of 2020

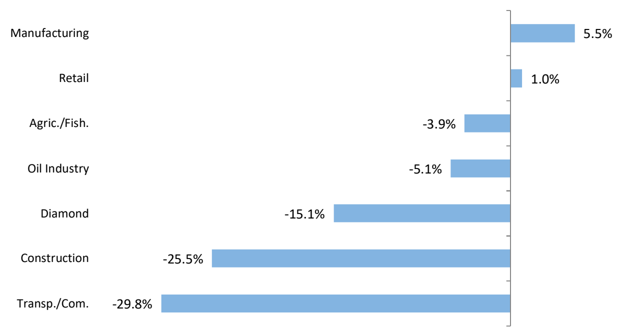
This means that the Angolan economy contracted 5.0% YoY in the first three quarters of 2020, with the transports and communication (-29.8% YoY) and construction (-25.5% YoY) sectors recording the sharpest decline in the period. Indeed, the only sectors that saw positive real GDP growth (on annual basis) were manufacturing (5.5%) and retail (1.0%). All in all, the latest projections suggest that economic activity in the country may have contracted by as much as -4.0% in 2020 after falling -0.5% in the previous year.

REAL GDP GROWTH (QOQ; YOY)



Source: INE.

REAL GDP GROWTH BY SECTOR (9M 2020; YOY)

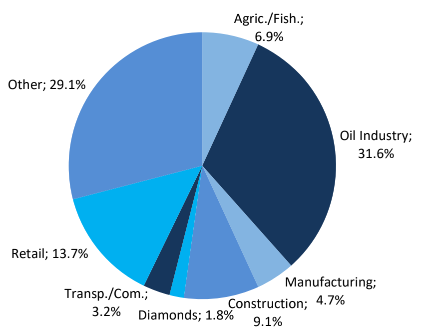


Source: INE.

Activity in the oil industry has been under pressure in recent years

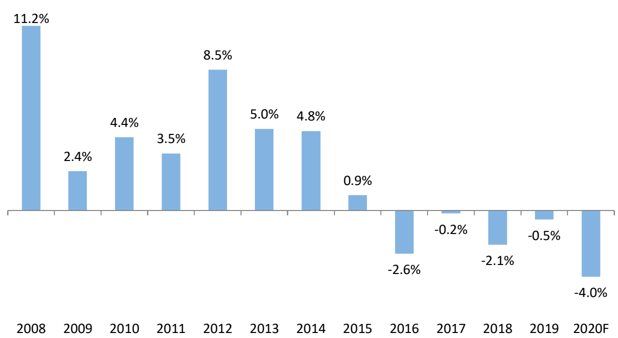
Angola's oil industry has had a lackluster performance in recent years, reflecting both lower oil prices and production as oil fields in the country mature. More recently, output has also been affected by OPEC's strategy to reduce crude production in order to try to balance supply and demand in the global oil market. This had led activity in the oil industry to decline every year since 2016 and to represent 31.6% of the country GDP's in the period January-September 2020. This figure compares with 38.1% of GDP in 2015. This notwithstanding, the oil industry unsurprisingly remains by far the largest sector of the Angolan economy.

GDP STRUCTURE (9M 2020)



Source: INE.

REAL GDP GROWTH (2008-2020F)



Source: INE and IMF.

Inflation interrupted its downward trajectory due to the impacts of Covid-19, the depreciation of the kwanza and modifications

Meanwhile, the inflation rate in the country has recently interrupted the downward trajectory that started in 2018 (and after peaking above 41% in end-2016). This mostly resulted from the impact of significant supply disruptions (both domestic and international) caused by the Covid-19 pandemic, the continued sharp depreciation of the kwanza and the modification of the new *to the VAT*

value-added tax (VAT) in September 2020.

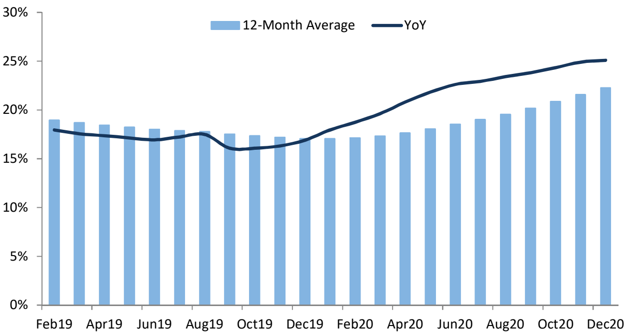
Annual inflation reached 25.1% in December 2020, up from 16.9% in end-2019

Data released by the INE showed that annual inflation reached 25.1% in December 2020, while the 12-month average stood at 22.3%. These figures compare with 16.9% and 17.1%, respectively, at end-2019. The strongest price increases were witnessed in food and non-alcoholic beverages (likely in excess of 35%), which negatively affected some more vulnerable segments of the population, as well as alcoholic beverages and tobacco and healthcare.

Inflation is expected to gradually decline in 2021-22

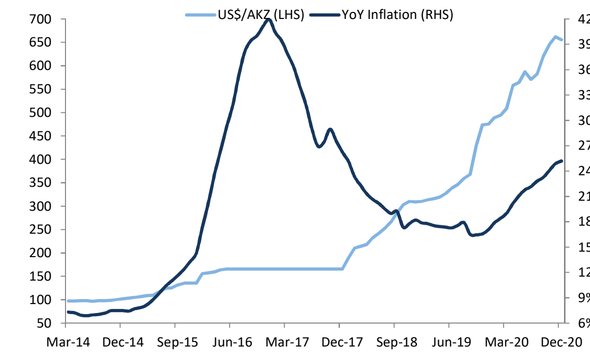
Consumer price inflation is anticipated to gradually decline in 2021, as the Banco Nacional de Angola (BNA) implements a more restrictive monetary policy aimed at ensuring price stability. Inflation is also expected to benefit from the absorption of the impact of the VAT modification and some moderation in the pace of depreciation of the kwanza. Overall, the BNA expects the annual inflation rate to be no higher than 18% this year and close to single-digits in 2022.

ANNUAL AND 12-MONTH AVERAGE INFLATION



Source: INE.

KWANZA EXCHANGE RATE AND ANNUAL INFLATION



Sources: BNA and INE.

CENTRAL BANK POLICY

The BNA has kept a relatively accommodative monetary policy in the first half of 2020 to help attenuate the impacts of the pandemic

The BNA has kept its benchmark interest rate at 15.5% since May 2019, while the mandatory reserve requirements rate in local currency has been unchanged at 22% since October 2019. Monetary policy was relatively accommodative in the first half of 2020 and was intended to help attenuate the impacts of the Covid-19 pandemic. It worked well to ease liquidity pressures on non-financial corporations, banks and the rollover of government securities. However, with inflation steadily increasing throughout the year and the worst of the shock from the pandemic already behind, the BNA began to gradually tighten monetary policy in the second half of 2020. The measures implemented by the central bank included the use of open market operations to drain excess liquidity from the system and the decision to increase the reserve requirements in foreign currency from 15% to 17% in September.

Liquidity in the Angolan economy increased during 2020

The latest figures from the BNA clearly show an expansion in liquidity in the economy, with the M2 aggregate growing 21.86% YoY in 2020. The M2 in local currency expanded 17.21% YoY and the monetary base stock (also in local currency) increased 4.53% YoY in the period. Moreover, the Luibor overnight rate fell from 22.48% at the end-2019 to 9.75% in December 2020 (a reduction of 1,273 basis points).

The central bank recently announced several more restrictive monetary policy measures to help lower the inflation rate

Bearing in mind the central bank’s commitment to the objective of price stability, together with its aim of reaching an annual inflation of no more than 18% this year and a rate close to single-digits in 2022, the BNA recently announced several more restrictive monetary policy measures. These measures include: (1) allocating the balance of reserve account of commercial banks to two separate accounts with the BNA, namely the mandatory reserve account and the clearing account, which must be kept permanently in the mandatory reserve account in local currency (100% of the amount calculated for the current week), (2) introducing a range of 0.10% to 0.20% for the custody rate according to the magnitude of the excess liquidity of commercial banks with the BNA; (3) index the interest rate of the standing lending facility to the market rate for Treasury bills for 91 days, plus 0.25%; and (4) index the interest rate on the liquidity absorption facility, with overnight maturity, to the applicable custody rate on free reserves held with the BNA.

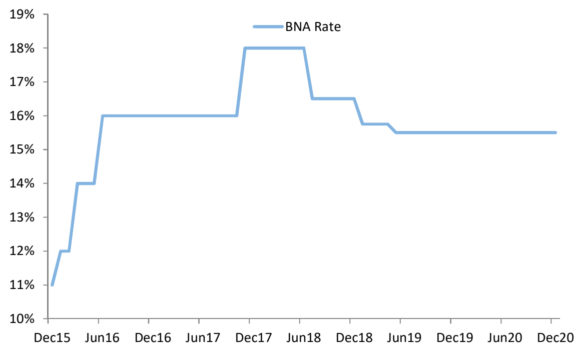
Regarding the permanent maintenance of a mandatory reserve account in local currency, the BNA intends to facilitate the liquidity management by commercial banks, mitigating the risk of default, and streamline the liquidity-providing window whenever a bank requires. In addition, by introducing the range of 0.10% to 0.20% for the custody fee charged on the excess liquidity of commercial banks, the central bank aims to ensure the maintenance of the evolution of the monetary base in line with the inflation objective.

These measures are intended to manage the liquidity levels of commercial banks

Despite these tightening measures, inflation remains high and interbank lending rates are still negative in real terms, which means that it is critical for the BNA to keep a tightening stance in 2021. This will probably include the need to raise the BNA rate from its current 15.5% level to support a shift toward positive real interest rates. This move would further help to contain excessive depreciation pressures for the kwanza, lower inflation and strengthen the central bank's signaling power and credibility. That said, the need to gradually raise real interest rates would have to be carefully managed in order not to pose excessive risks to economic activity.

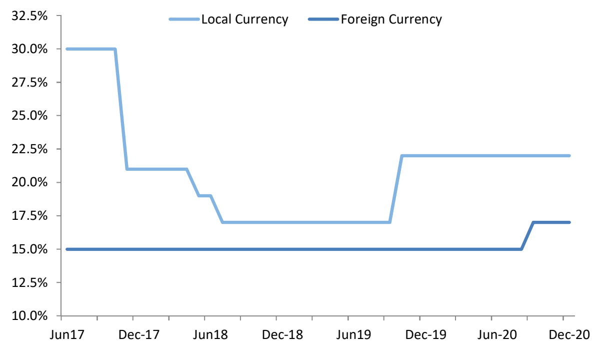
These more restrictive measures already announced will likely have to be complemented with a gradual increase in the BNA rate

EVOLUTION OF THE BNA RATE



Source: BNA.

RESERVE REQUIREMENTS



Source: BNA.

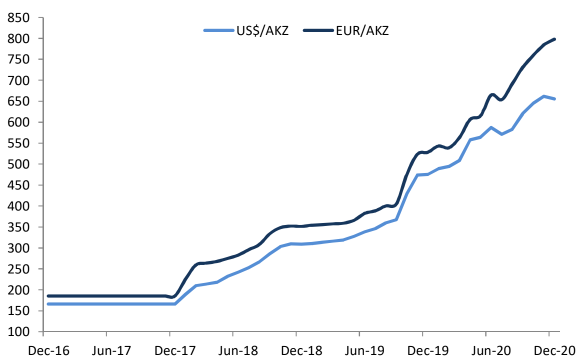
The latest BNA figures also showed that the average exchange rate of the kwanza continued to depreciate markedly in 2020, namely 36.9% against the dollar and 38.4% against the euro. This follows already sharp depreciations of 30.7% and 27.2%, respectively, in the previous year. We note that the local currency has depreciated close to 75% against both currencies since the start of 2018, when the central bank implemented several measures aimed at increasing exchange rate flexibility that have allowed for a more market-determined exchange rate.

The kwanza exchange rate continued to depreciate significantly against the dollar and the euro in 2020

Meanwhile, the spread between the official and parallel exchange rates widened significantly to around 35% in mid-2020 partly as a result of the lack of physical foreign exchange in informal markets as borders were closed. This spread has recently narrowed to a level just below 15% at the end of the year (vs. 23% in December 2019). Recall that this differential reached a peak close to 150% in December 2017.

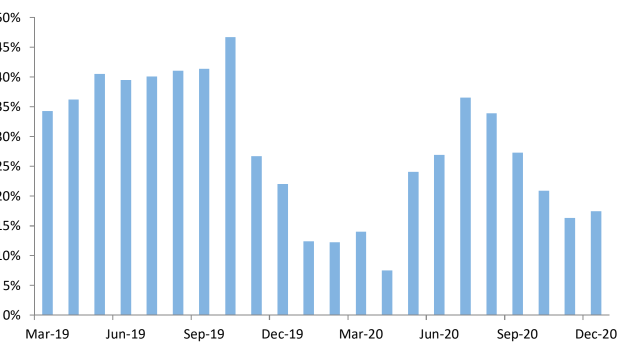
The gap in the FX rate in the parallel and official markets narrowed in recent months to a level just below 15% in end-2020

KWANZA EXCHANGE RATE



Source: BNA.

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



Sources: BNA and Roke Santeiro.

The implementation of a more flexible exchange rate regime since the start of 2018 has led to more limited foreign exchange interventions by the BNA. This has allowed reserve losses to be

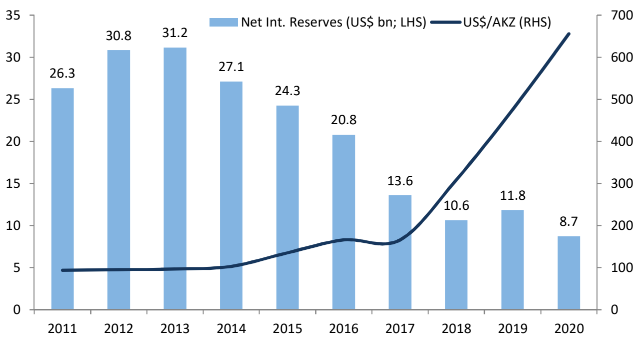
Foreign reserves at the central bank have fallen in within reasonable levels in recent years, despite balance of payments pressures due to the drop in oil proceeds during this period. The latest figures from the BNA showed that net reserves at the central bank stood at US$ 8.7 billion in December 2020, while gross reserves reached US$ 14.8 billion, covering about 12 months of imports. These figures compare with US$ 11.7 billion and US$ 17.2 billion, respectively, in 2019. Foreign reserves are projected to increase this year and lead to an improvement in import coverage, although pressure on external accounts could persist as a result of a likely further decline in oil production.

recent months, but stand at relatively comfortable levels in terms of import coverage

The measures adopted by the central bank to develop the domestic foreign exchange interbank market have also allowed it to reduce its role as the main supplier of foreign currency. Recent actions include the adoption of the Bloomberg FX trading platform for commercial banks and measures to enhance full price discovery in the market. These measures are partly reflected in the lower amount of foreign currency sold by the BNA to the banking sector, while they should also help to limit the spread between the official and parallel exchange rates.

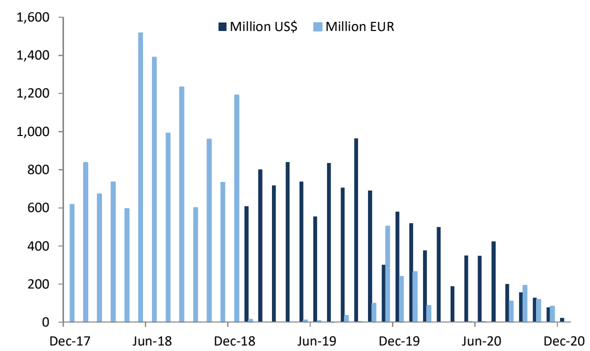
Measures recently implemented by the BNA to develop the domestic FX interbank market have allowed it to reduce its role as the main FX supplier

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



Source: BNA.

MONTHLY FX SALES TO COMMERCIAL BANKS



Source: BNA.

In terms of commercial banks, we note that the BNA also introduced in the last couple of years some key legislation aimed at increasing the amount of credit to be provided by domestic banks to those investment projects that contribute directly or indirectly to national production. The aim is to try to increase local production so that it replaces part of the essential goods for the Angolan population that are still imported from overseas markets. First, the BNA announced in 2019 that banks operating in the country would have to provide loans amounting to at least 2.0% of their total assets (as of end-2018) for these projects at a total cost (interest plus fees) no greater than 7.5%. This limit was increased last year to 2.5% of total assets (as of end-2019). And second, the Credit Support Project (PAC) for the period 2019-22 aims to facilitate credit to the local companies operating in the production and commercialization of 54 essential goods for the Angolan population set in the PRODESI program targeted at replacing imports with local produce and diversifying exports.

The BNA introduced some key legislation in order to try to increase credit provided to national production

In this regard, the BNA recently announced that the domestic banking sector had approved new credit to the real economy worth AKZ 258.6 billion up until December 2020, of which AKZ 143 billion had already been disbursed. This corresponds to 72.5% of the minimum amount of credit to be granted until 30 April 2021. On an individual basis, the BNA stated that eight banks have reached the target of providing loans amounting to at least 2.5% of their respective assets (as of end-2019). However, these eight banks still fail to comply with the minimum required target in terms of the number of projects to be financed. Meanwhile, in terms of new projects, domestic banks granted credit to 92 projects representing 17.69% of the total projects to be financed until 30 April 2021, of which 10 banks accounted for 82.61% of the total loans. Finally, restructured loans represented 25.23% (or AKZ 36.1 billion) of the disbursed amount by the commercial banks and accounted for six of the 92 projects.

The central bank provided an update on new credit provided by domestic banks

EXTERNAL ACCOUNTS

The BNA's latest reported balance of payments figures relate to the period January-September 2020. It showed a small surplus in the current account balance of US$ 298 million (0.6% of

The current account surplus fell sharply in the first three quarters of 2020

GDP), down 91.1% from a surplus of US$ 3,363 million (5.1% of GDP) in the homologous period. This evolution was mostly due to a much lower surplus in the trade balance (-45.3% YoY) and a deficit of US$ -863 million in the financial account balance (compares with a surplus of US$ 3,123 million in 9M 2019).

The strong decline in the trade surplus reflects much lower oil exports, which clearly outweighed the impact from lower imports

In terms of the trade balance, we note the decline in exports from the oil sector (-42.1% YoY), which resulted from both lower crude exports and prices. Oil exports fell to 360.4 million barrels from 377.9 million in the first nine months of 2019 (-4.6% YoY), while the average oil price dropped by 19.6% YoY to US$ 40.2 per barrel in the period. On the other hand, imports fell 37.3% YoY, partly reflecting the impact that the continued contraction in economic activity in the country is having on consumption levels and the effects that the pandemic on global trade. We note that the import of foods and machinery and electrical equipment (representing a combined 47% of total imports) declined 13.7% and 23.8% YoY, respectively, in the period. Overall, exports and imports represented 32.9% and 15.0% of GDP, respectively.

The sharp drop in financial account reflects the sale of equity and investment fund shares

BNA data showed that the sharp decline in the financial account balance reflects the negative contribution from portfolio investments, namely the sale of equity and investment fund shares amounting to US$ 1,044 million in the period.

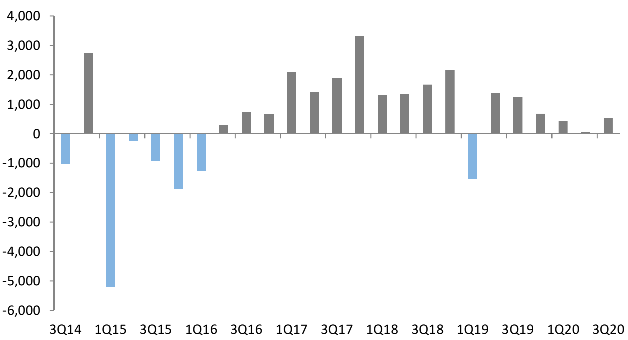
BALANCE OF PAYMENTS							YoY Chg			
US$ Million	2016	2017	2018	2019	9M 2019	9M 2020	2017/16	2018/17	2019/18	9M20/19
Current Account	-3,085	-633	7,403	5,137	3,363	298	-79.5%	n.m.	-30.6%	-91.1%
Trade Balance	14,548	20,150	24,960	20,599	15,015	8,208	38.5%	23.9%	-17.5%	-45.3%
Exports, f.o.b.	27,589	34,613	40,758	34,726	26,056	15,133	25.5%	17.8%	-14.8%	-41.9%
Oil Sector	26,366	33,312	39,409	33,365	25,071	14,511	26.3%	18.3%	-15.3%	-42.1%
Other	1,223	1,301	1,349	1,360	985	622	6.4%	3.7%	0.8%	-36.9%
Imports, f.o.b.	-13,040	-14,463	-15,798	-14,127	-11,041	-6,924	10.9%	9.2%	-10.6%	-37.3%
Services Balance	-11,906	-12,809	-9,458	-7,718	-5,923	-4,114	7.6%	-26.2%	-18.4%	-30.5%
Income Balance	-5,728	-7,974	-8,099	-7,743	-5,729	-3,796	39.2%	1.6%	-4.4%	-33.7%
Capital Account Balance	1	3	3	2	2	1	344.9%	11.6%	-30.2%	-69.0%
Financial Account Balance	-4,889	-749	7,248	4,208	3,123	-863	-84.7%	n.m.	-41.9%	n.m.
Net Foreign Direct Investment	453	8,749	6,462	1,749	1,075	1,024	1833.5%	-26.1%	-72.9%	-4.7%
Net Errors and Omissions	-1,805	-118	-158	-932	-242	-1,162	-93.4%	33.4%	489.8%	379.5%
Values as a % of GDP:										
Current Account	-3.1%	-0.5%	6.9%	6.1%	5.1%	0.6%				
Trade Balance	14.5%	16.5%	23.4%	24.3%	22.7%	17.8%				
Exports	27.4%	28.3%	38.2%	41.0%	39.4%	32.9%				
Imports	13.0%	11.8%	14.8%	16.7%	16.7%	15.0%				
Services Balance	-11.8%	-10.5%	-8.9%	-9.1%	-8.9%	-8.9%				
Income Balance	-5.7%	-6.5%	-7.6%	-9.1%	-8.7%	-8.2%				
Financial Account Balance	-4.9%	-0.6%	6.8%	5.0%	4.7%	-1.9%				
Net Foreign Direct Investment	0.5%	7.2%	6.0%	2.1%	1.6%	2.2%				

Source: BNA.

Net FDI fell by 4.7% YoY in the first three quarters of last year

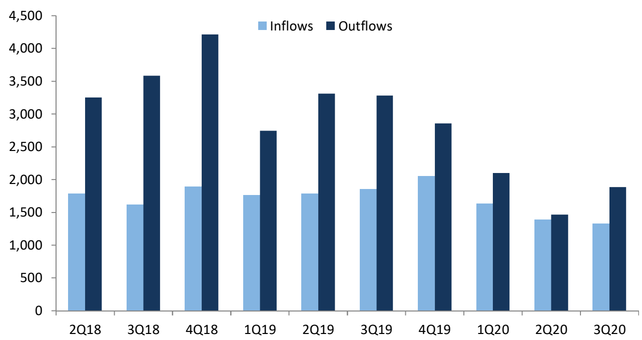
Net foreign direct investment (FDI) fell by 4.7% YoY in the first three quarters of last year and stood at US$ 1,024 million (2.2% of GDP). In particular, total FDI inflows reached US$ 4,444 million, of which 98% (or US$ 4,355 million) relate to the oil sector. This represents a decline of 46.3% YoY and 19.3%, respectively. On the other hand, outflows amounted to US$ 5,468 million in the same period (-41.5% YoY), with 99.7% of these outflows from the oil sector.

NET FOREIGN DIRECT INVESTMENT (US$ MILLION)



Source: BNA.

FOREIGN DIRECT INVESTMENT OIL SECTOR (US$ MILLION)



Source: BNA.

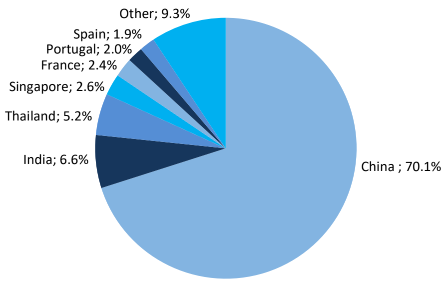
China accounted for nearly 70% of Angola's oil exports

Other data released by the BNA showed that China accounted for just over 70% of Angola's oil exports in the first three quarters of 2020, with India being the country's second exporting market with 6.6% of total oil exports. The other main destinations included Thailand (5.2%), Singapore (2.6%) and France (2.4%).

Moreover, Portugal was Angola's main supplier in the same period, accounting for 14.4% of total imports, closely followed by China (13.8%). It is worth noting that import levels from the country's key trading partners all declined from the homologous period, namely 26.0% from Portugal and 33.6% from China.

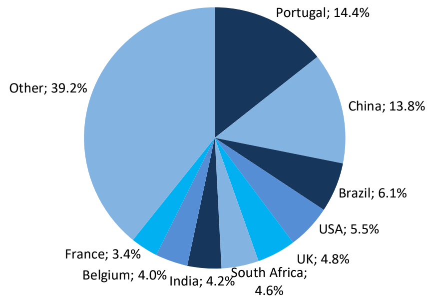
Portugal and China remained the country's main suppliers

EXPORTS BY COUNTRY (9M 2020)



Source: BNA.

IMPORTS BY COUNTRY (9M 2020)

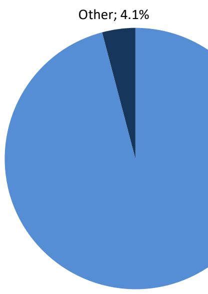


Source: BNA.

In terms of products, oil continued to represent nearly all of the country's exports, accounting for 95.9% of the total in the period through September. This compares with 96.2% in the first three quarters of 2019. The breakdown of imports by products was more evenly balanced. Foods accounted for 23.6%, machinery and electrical equipment for 23.5% and petroleum for 9.3%. As stated above, the import of foods as well as machinery and electrical equipment both declined by double-digits from the previous year.

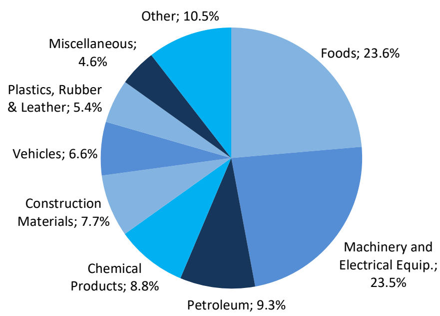
Oil represented 95.9% of Angola's total exports in the first three quarters of 2020

EXPORTS BY PRODUCT (9M 2020)



Source: BNA.

IMPORTS BY PRODUCT (9M 2020)



Source: BNA.

FISCAL ACCOUNTS

The Angolan government anticipates a lower budget deficit in 2020 than the forecast included in its revised budget for last year, reflecting higher than expected revenues (+10.0%) and lower costs (-2.1%). These higher revenues come from larger tax receipts from both the oil and non-oil sector, while the lower costs are related to lower current expenditures (mainly on goods and services). Overall, the budget deficit is forecasted to represent 1.5% of GDP, which compares with -4.0% of GDP foreseen in the revised budget.

The budget deficit in 2020 is forecasted to be lower than initially expected

Meanwhile, the government forecasts in the 2021 budget that total revenues and expenditures will reach AKZ 7,922 billion and AKZ 8,861 billion, respectively. This represents an increase of 17.6% in revenues and 22.4% in expenditures relatively to the 2020 projected figures. The overall fiscal deficit is expected to reach AKZ 938 billion, while the primary fiscal balance, which excludes interest payments, is anticipated to reach a surplus of AKZ 1,664 billion. This represents -2.2% of GDP and 4.0% of GDP, respectively.

The government forecasts a budget deficit of 2.2% of GDP this year, wider than the -1.5% of GDP expected in 2020

It is worth noting that this year's budget assumes that average oil prices will remain at US$ 39 per barrel (unchanged from the projection made for 2020). The government admits that this is a conservative assumption, namely bearing in mind current average crude price projections made by institutions like the IMF or the US Energy Information Administration, which stand at about US$ 50. The government also anticipates average daily oil production to reach 1.220 million barrels, below the 1.288 million barrels estimated for 2020, considering this a conservative assumption as well. Indeed, a lot of uncertainty remains about the strategy that OPEC and its partners will adopt going forward, with these producers recently delaying the resumption of some production that was expected to take place at the start of the year.

The 2021 budget assumes an average oil price of US$ 39, which is believed to be conservative

GOVERNMENT ACCOUNTS						
AKZ BILLION	2020 Revised Budget	2020 Exec. Forecast	Change	2020 Exec. Forecast	2021 Budget	Change
Revenues	**6,125**	**6,737**	**10.0%**	**6,737**	**7,922**	**17.6%**
Tax Revenues	5,280	6,222	17.8%	6,222	7,123	14.5%
Oil Revenues	2,952	3,422	15.9%	3,422	4,059	18.6%
Non-oil Revenues	2,329	2,800	20.2%	2,800	3,063	9.4%
Non-tax Revenues	845	515	-39.0%	515	800	55.3%
Expenditures	**7,393**	**7,238**	**-2.1%**	**7,238**	**8,861**	**22.4%**
Current Expenditures	5,931	5,650	-4.7%	5,650	7,350	30.1%
Wages	2,182	2,063	-5.4%	2,063	2,472	19.8%
Goods and Services	1,028	692	-32.7%	692	1,382	99.7%
Interests	1,967	2,365	20.2%	2,365	2,602	10.0%
Transfers	753	530	-29.7%	530	894	68.8%
Capital Expenditure	1,462	1,587	8.6%	1,587	1,511	-4.8%
Primary Fiscal Balance	**700**	**1,865**	**166.5%**	**1,865**	**1,664**	**-10.8%**
% of GDP	*2.2%*	*5.5%*	*3.3 p.p.*	*5.5%*	*4.0%*	*-1.5 p.p.*
Overall Fiscal Balance	**-1,268**	**-500**	**-60.5%**	**-500**	**-938**	**87.5%**
% of GDP	*-4.0%*	*-1.5%*	*2.5 p.p*	*-1.5%*	*-2.2%*	*-0.7 p.p.*

Source: Angolan authorities.

A closer analysis the 2021 budget figures shows that the higher revenue projections expected this year reflect a further improvement in tax receipts, both from the oil and non-oil sectors. In particular, tax revenues from the oil sector are expected to increase 18.6% compared with the 2020 forecasted figure. Moreover, the increase in receipts from the non-oil sector (+9.4%) reflects (1) the expansion of the base of the VAT at customs and the removal of some VAT exemptions, (2) higher revenues resulting from the implementation of a new code on the labor income tax, (3) the reform on the incentives associated with investments in the industrial tax domain, (4) the strengthening of transfer pricing rules, (5) the improvement of property registry and (6) the start of integrating the informal sector. Non-tax revenues are also anticipated to see a robust improvement (+55.3%) from last year.

The increase in revenues reflects a further improvement in tax receipts, both oil and non-oil sector related

In terms of expenditures, the government is anticipating current expenditures to increase 30.1% and capital expenditures to decline by 4.8% when compared with the 2020 forecasted figures. We note that spending on goods and services is projected to nearly double in the period while interest payments are only forecasted to increase by 10% after the government recently reached several agreements with creditors to restructure the debt service profile.

Current expenditures are expected to increase 30.1% YoY as spending on goods and services nearly doubles in the period

GOVERNMENT ACCOUNTS									% of GDP
	2014	2015	2016	2017	2018	2019 (1)	2020 (2)	2020 (3)	2021 (4)
Revenues	**35.3%**	**27.3%**	**17.4%**	**17.5%**	**22.9%**	**21.4%**	**19.2%**	**19.8%**	**18.9%**
Tax Revenues	32.9%	24.7%	15.6%	15.8%	21.1%	19.8%	16.6%	18.3%	17.0%
Oil Revenues	23.8%	15.4%	8.2%	9.9%	14.5%	12.9%	9.3%	10.0%	9.7%
Non-oil Revenues	9.1%	9.3%	7.4%	5.9%	6.6%	6.9%	7.3%	8.2%	7.3%
Non-tax Revenues	2.4%	2.6%	1.8%	1.7%	1.8%	1.5%	2.6%	1.5%	1.9%
Expenditures	**41.9%**	**30.6%**	**21.9%**	**23.8%**	**20.8%**	**20.7%**	**23.2%**	**21.2%**	**21.1%**
Current Expenditures	29.4%	24.7%	18.0%	17.3%	16.1%	17.0%	18.6%	16.6%	17.5%
Wages	10.6%	11.3%	8.4%	7.4%	6.0%	6.5%	6.8%	6.1%	5.9%
Goods and Services	10.0%	6.4%	3.7%	4.1%	3.4%	2.8%	3.2%	2.0%	3.3%
Interests	1.2%	2.0%	2.8%	3.3%	4.7%	5.9%	6.2%	6.9%	6.2%
Transfers	7.6%	5.0%	3.1%	2.3%	1.9%	1.9%	2.4%	1.6%	2.1%
Capital Expenditure	12.5%	6.0%	3.9%	6.5%	4.6%	3.7%	4.6%	4.7%	3.6%
Primary Fiscal Balance	**-5.4%**	**-1.3%**	**-1.7%**	**-3.0%**	**6.8%**	**6.5%**	**2.2%**	**5.5%**	**4.0%**
Overall Fiscal Balance	**-6.6%**	**-3.3%**	**-4.5%**	**-6.3%**	**2.1%**	**0.7%**	**-4.0%**	**-1.5%**	**-2.2%**

(1) Estimate; (2) Revised Budget; (3) Execution Forecast; (4) Budget Proposal. Sources: Angolan authorities and Eaglestone Securities.

Overall, total revenues are projected to represent 18.9% of GDP (vs. 19.8% expected in 2020), with oil-related tax receipts (as a percent of GDP) remaining in single-digits (9.7%). On the other hand, total expenditures are expected to account for 21.1% of GDP, remaining relatively

Revenues and expenditures are expected to represent 18.9% and 21.1% of GDP, respectively unchanged from last year.

Oil-related tax receipts are forecasted to represent 51.2% of total revenues this year. This figure is slightly higher than the 50.8% projected in 2020, but remains below the figures recorded in recent years. The contribution from non-tax revenues is expected to represent 10.1% of the total, above the 7.6% foreseen for the previous year. Also worth noting is the proportion of public spending going toward debt interest payments. This is projected to account for 29.4% of total spending, surpassing the amount allocated to pay the salaries of public sector workers.

Oil-related tax receipts are projected to represent 51.2% of total revenues

GOVERNMENT ACCOUNTS									% of Total
	2014	2015	2016	2017	2018	2019 (1)	2020 (2)	2020 (3)	2021 (4)
Revenues									
Tax Revenues (Oil)	67.5%	56.4%	47.3%	56.7%	63.4%	60.4%	48.2%	50.8%	51.2%
Tax Revenues (Non-Oil)	25.6%	34.0%	42.3%	33.7%	28.9%	32.4%	38.0%	41.6%	38.7%
Non-tax Revenues	6.9%	9.6%	10.4%	9.6%	7.7%	7.2%	13.8%	7.6%	10.1%
Total Revenues	**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%	82.2%	80.2%	78.1%	82.9%
Wages	25.3%	36.8%	38.3%	31.3%	28.9%	31.6%	29.5%	28.5%	27.9%
Goods and Services	23.9%	20.9%	17.1%	17.4%	16.6%	13.3%	13.9%	9.6%	15.6%
Interests	2.8%	6.6%	12.9%	14.0%	22.8%	28.3%	26.6%	32.7%	29.4%
Transfers	18.2%	16.2%	14.0%	9.8%	9.3%	9.0%	10.2%	7.3%	10.1%
Capital Expenditure	29.8%	19.5%	17.7%	27.4%	22.3%	17.8%	19.8%	21.9%	17.1%
Total Expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Estimate; (2) Revised Budget; (3) Execution Forecast; (4) Budget Proposal. Sources: Angolan authorities and Eaglestone Securities.

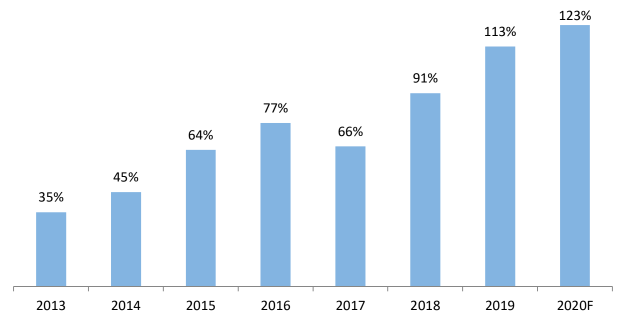
Meanwhile, the government stated that Angola's public debt is forecasted to reach 123% of GDP in 2020, up from 113% of GDP in the previous year. This increase is due to the country's economic downturn and larger budget financing needs, which reflect the impact that the oil price shocks in recent years have had on public receipts. The deterioration in public debt ratios also reflects the depreciation of the kwanza since about four-fifths of Angola's public debt is denominated in, or indexed to, foreign currency, although it is important to note that the large share of oil receipts in dollars provides a medium-term hedge to exchange rate shocks.

Public debt is expected to reach 123% of GDP in 2020, up from 113% of GDP in the previous year

The government also expects debt service payments (debt amortization plus interest payments) to increase 3.1% relatively to the 2020 revised budget forecast, reaching AKZ 7,757 billion and 18.5% of GDP next year.

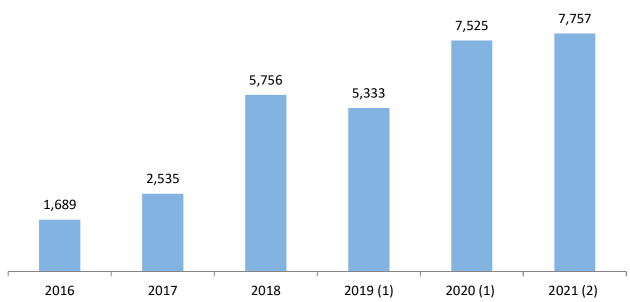
Debt service payments are expected to increase slightly in 2021

PUBLIC DEBT (% OF GDP)



Source: Angolan authorities.

DEBT SERVICE PAYMENTS (AKZ BILLION)



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

Finally, 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 2021. We assume that all other things would remain equal, namely the expenditures envisaged in the 2021 budget.

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 in Angola since the year 2010 and present it in the table below. Our sensitivity analysis considers an average oil price range of US$ 35 and US$ 60 for this year and an implied tax rate ranging from 28% to 36% based on the data collected. We also assume an average US$/AKZ exchange rate of 730.0 for the year to reflect an adjustment of 20% for the kwanza compared with the average exchange rate of 2020.

Our sensitivity analysis considers an average oil price range of US$ 35-60 per barrel in 2021

OIL/FISCAL ACCOUNTS	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 (1)	2021 (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	504.8	471.2	445.3
Average daily oil production (million bpd)	1.76	1.66	1.73	1.72	1.67	1.78	1.73	1.64	1.48	1.38	1.29	1.22
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	65.2	39.0	39.0
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**	**32,913**	**18,377**	**17,367**
Exchange rate (US$/AKZ) (3)	91.1	94.0	95.4	96.6	98.3	120.1	164.0	165.9	252.9	364.8	583.7	729.7
Oil revenues (AKZ billion) (C)	**4,552**	**6,271**	**6,728**	**6,516**	**5,812**	**4,182**	**4,227**	**5,344**	**9,636**	**12,008**	**10,727**	**12,672**
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**	**3,953**	**3,422**	**4,059**
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%*	*32.9%*	*31.9%*	*32.0%*

(1) Forecast; (2) Budget Proposal; (3) We assume an adjustment of 20% to the US$/AKZ exchange rate in 2021. Sources: Angolan authorities and Eaglestone Securities.

If the average oil price reaches US$ 55 in 2021 then total revenues would be 21% higher than the government's current forecast

Our sensitivity analysis shows that the Angolan government could reach a budget surplus this year assuming that oil prices continue to show some resiliency. As an example, if the average oil price for 2021 remains at the current average level of around US$ 55 recorded since the start of the year (vs. the existing forecast of US$ 39) and assuming the same implied tax rate of 32% then, according to our calculations, total revenues would stand 21% above the current government forecast. This also means that the fiscal balance would reach a surplus of 1.7% of GDP rather than the current projection of a fiscal deficit of -2.2% of GDP for the same level of expenditures, as detailed below.

Change in Revenues vs Budget 2021

		Average Oil Price (US$)					
		35.0	39.0	45.0	50.0	55.0	60.0
Implied Tax Rate	28.0%	-11.0%	-6.5%	0.4%	6.2%	11.9%	17.7%
	30.0%	-8.1%	-3.2%	4.2%	10.3%	16.5%	22.7%
	32.0%	-5.3%	0.0%	7.9%	14.5%	21.0%	27.6%
	34.0%	-2.4%	3.1%	11.5%	18.5%	25.5%	32.4%
	36.0%	0.4%	6.3%	15.2%	22.6%	30.0%	37.4%

Source: Eaglestone Securities.

Overall Fiscal Balance (% of GDP)

		Average Oil Price (US$)					
		35.0	39.0	45.0	50.0	55.0	60.0
Implied Tax Rate	28.0%	-4.3%	-3.5%	-2.2%	-1.1%	0.0%	1.1%
	30.0%	-3.8%	-2.8%	-1.4%	-0.3%	0.9%	2.0%
	32.0%	-3.2%	-2.2%	-0.7%	0.5%	1.7%	3.0%
	34.0%	-2.7%	-1.6%	-0.1%	1.3%	2.6%	3.9%
	36.0%	-2.2%	-1.0%	0.6%	2.0%	3.4%	4.8%

Source: Eaglestone Securities.

ANNEX – ECONOMIC FORECAST SUMMARY

ANGOLA ECONOMIC FORECASTS	2014	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F
Gross Domestic Product (annual growth)										
Real GDP	4.8%	0.9%	-2.6%	-0.1%	-2.0%	-0.6%	-4.0%	0.4%	2.4%	3.5%
Oil Sector	-2.5%	11.1%	-2.7%	-5.3%	-9.4%	-6.5%	-6.3%	-6.2%	0.0%	0.0%
Non-oil sector	9.2%	-4.4%	-2.5%	3.0%	2.1%	2.3%	-2.9%	2.5%	3.3%	4.7%
Gross Domestic Product (current prices, AKZ bn)	14,324	13,950	16,550	20,262	26,778	32,690	36,133	46,879	53,965	60,300
Gross Domestic Product (current prices, US$ bn)	145.7	116.2	101.1	122.1	105.9	89.6	61.9	61.4	64.2	69.0
Population (million)	25.9	26.7	27.5	28.4	29.3	30.1	31.0	32.0	32.9	33.9
Gross Domestic Product per capita (US$)	5,626	4,355	3,677	4,304	3,621	2,974	1,996	1,920	1,950	2,034
Investment (% of GDP)										
Total Investment	27.5%	34.2%	27.2%	24.1%	20.5%	19.8%	21.5%	21.1%	21.3%	21.4%
Gross National Savings	29.8%	28.5%	24.5%	23.4%	27.5%	25.5%	20.2%	21.2%	22.2%	22.3%
External Sector										
Exports of Goods & Services (annual growth)	-2.1%	6.7%	-0.6%	-4.8%	0.1%	0.2%	1.2%	-0.3%	0.9%	0.3%
Imports of Goods & Services (annual growth)	10.7%	-19.9%	-25.6%	-0.8%	-11.1%	-11.3%	-23.8%	13.4%	-2.5%	6.5%
Trade Balance (% of GDP)	21.0%	10.7%	14.4%	16.5%	23.6%	23.0%	16.6%	20.0%	19.4%	18.6%
Current Account Balance (% of GDP)	-2.6%	-8.8%	-4.8%	-0.5%	7.0%	5.7%	-0.7%	0.6%	-0.3%	-0.7%
Oil & Gas Sector										
Oil & Gas Production (million barrels)	610.3	649.7	638.4	643.2	583.0	544.9	510.6	479.2	479.2	479.2
Oil & Gas Production (million bpd)	1.672	1.780	1.749	1.762	1.597	1.493	1.399	1.313	1.313	1.313
Angolan Oil Price (US$ per barrel)	97.4	48.9	40.9	53.9	70.6	65.2	39.6	46.2	46.4	46.9
Consumer Price Inflation										
Consumer Prices (period average)	7.3%	9.2%	30.7%	29.8%	19.6%	17.1%	22.3%	22.2%	13.1%	8.9%
Consumer Prices (end of period)	7.5%	12.1%	41.1%	23.7%	18.6%	16.9%	25.1%	18.7%	10.0%	8.0%
General Government (% of GDP)										
Revenues	30.7%	24.1%	17.5%	17.5%	21.9%	20.0%	18.2%	20.3%	20.4%	20.0%
Expenditures	36.5%	27.1%	22.0%	23.8%	19.7%	19.2%	19.9%	20.0%	19.0%	18.5%
Fiscal Balance	-5.7%	-2.9%	-4.5%	-6.3%	2.2%	0.8%	-1.7%	0.3%	1.4%	1.4%
Gross Debt	39.8%	57.1%	75.7%	69.3%	89.0%	109.2%	134.2%	119.9%	106.7%	97.2%
Foreign Investment and Reserves										
Net Foreign Direct Investment (US$ mn)	2,771	10,813	-453	-8,749	-6,462	-1,749	-854	-1,441	104	875
Gross International Reserves (US$ bn)	27.7	24.4	24.4	18.2	16.2	17.2	14.1	15.2	15.2	15.5
Gross International Reserves (in months of imports)	6.2	7.7	11.4	7.7	7.5	9.3	9.9	10.0	9.6	9.3
Exchange Rate										
Exchange Rate (period average, AKZ/US$)	98.3	120.1	163.7	165.9	252.9	364.8	583.7	687.2	756.5	786.5
Exchange Rate (end of period, AKZ/US$)	102.9	135.3	165.9	165.9	308.6	482.2	656.2	687.2	756.5	786.5

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

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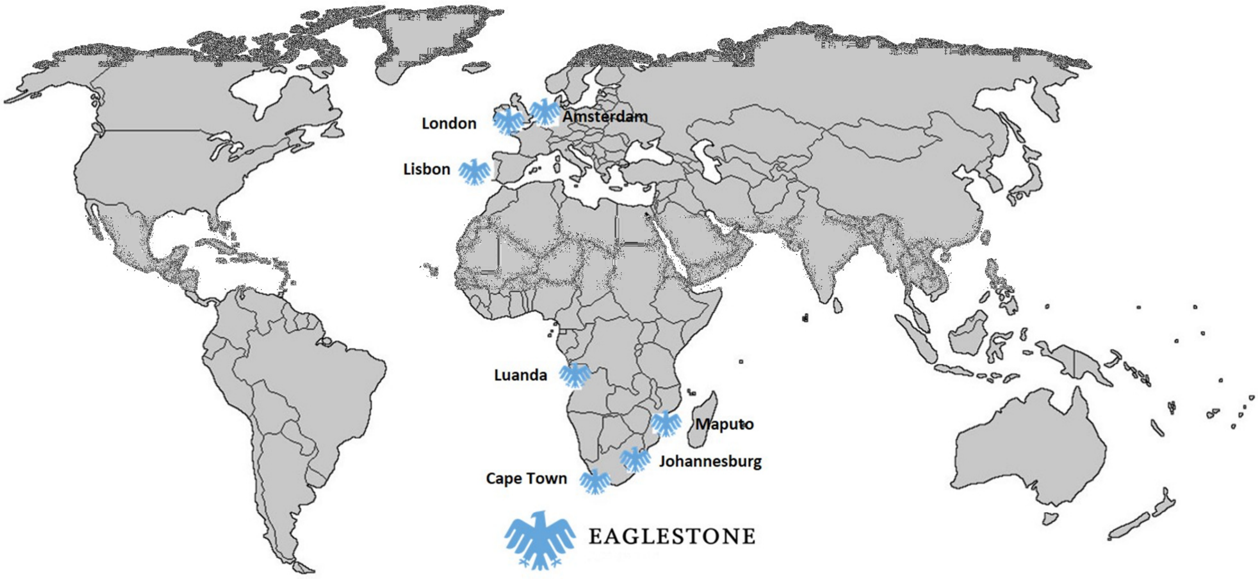

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Disclosures

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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