The Angolan Economy

The return to a lower oil price environment

Research
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Economics
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The oil-price war between Saudi Arabia and Russia that resulted from the failure of OPEC+ partners to come to an agreement on their production strategy going forward led prices to crash more than 35% in just a few days. Brent currently stands near US$27, which compares with a price of around US$50 before the infamous Vienna meeting earlier this month. In previous oil-price wars, prices gradually declined over several months and not so abruptly as this latest collapse. Also, all of them lasted more than one year and prices fell by at least 50%. The current situation is somewhat different, as the existing demand shock is so significant and has never taken place at the same time as this supply shock. Therefore, uncertainty about the outlook for global crude prices is likely to persist, and will depend on how long Saudi Arabia's latest strategy of shock-and-awe the oil market will last and how quickly everyone at OPEC+ will return to the negotiation table.

Angola remains highly dependent on the oil sector, as the local authorities' efforts to improve economic diversification will take time to show a more significant impact. Indeed, the latest figures show that the oil sector still accounted for more than 96% of the country's exports (two-thirds of these going to China) and 60% of government proceeds last year. As a result, if prolonged, a significantly lower crude price could have huge implications for public receipts and the Angolan economy.

We carried out a sensitivity analysis (included in the next page) to try to determine the impact that different oil price scenarios would have on the government's existing revenue projections included in the 2020 budget. Our calculations show that receipts could fall short of the current target for this year by as much as 35% if average oil prices stand at 25 US$ (vs. current oil price assumption of 55 US$). This amounts to US$ 5.6 billion lower proceeds, or 7.4% of GDP forecasted for this year.

We believe this lower crude price environment will lead the Angolan government to announce a revised budget for 2020 in the near future, possibly including a relevant cut (and/or a reprioritization) in public expenditures. The government could also (1) accelerate its efforts to capture more revenues from the non-oil sector, (2) announce new financing deals with multilaterals and/or (3) issue debt in international markets (Eurobonds). A mixture of these measures is the most likely scenario considering that an aggressive reduction in public expenditures would further depress economic activity in the country, which remains quite fragile, while relying largely on debt financing would put additional pressure on already distressed public debt levels (representing c100% of GDP). Angola's president has already authorized the issue of up to US$ 3 billion in Eurobonds. However, an eventual deal will likely have to wait until market conditions improve after yields surged in recent days.

These latest developments in the global oil market will surely put additional pressure on largely oil dependent countries like Angola, with its credit ratings (highly speculative, according to S&P's) making it one to carefully monitor. Although gross international reserves represent a somewhat comfortable eight months of prospective imports, the kwanza is already showing some signs of strain. The local authorities' next steps will be critical, namely in terms of providing a strong signal to investors of their continued commitment to fiscal consolidation, even in these challenging times. But Angola will also need the assistance of institutions like the IMF, as the risk of running into debt repayment problems is now materially higher than before.

OIL PRICE SENSITIVITY ANALYSIS AND AFRICAN EUROBONDS

Our sensitivity analysis considers an average oil price range of US$ 25-55 per barrel in 2020

We have collected data on the performance of the oil sector since the year 2010 and present it the table below. Our sensitivity analysis considers an average oil price range of US$ 25 and US$ 55, which is the assumption included in the government's 2020 budget, and an implied tax ranging from 30% to 40% based on the data collected in recent years. We also assume an average US$/AKZ exchange rate of 540.0 for the year to reflect a depreciation of 30% to the average exchange rate of 2019.

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)	91.1	94.0	95.4	96.6	98.3	120.1	164.0	165.9	252.9	368.1	543.3
Oil revenues (AKZ billion) (C)	**4,552**	**6,271**	**6,728**	**6,516**	**5,812**	**4,182**	**4,227**	**5,344**	**9,636**	**10,602**	**15,674**
Government Accounts											
Total revenues (AKZ billion) (D)	**3,296**	**4,776**	**5,054**	**4,849**	**4,403**	**3,367**	**2,900**	**3,543**	**5,860**	**5,986**	**8,611**
Oil related tax revenues (AKZ billion) (E)	**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) = (E) / (C)	*54.9%*	*60.9%*	*61.0%*	*55.7%*	*51.1%*	*45.4%*	*32.5%*	*37.6%*	*38.6%*	*33.7%*	*35.6%*
Oil related tax revenues / Total revenues = (E) / (D)	*75.9%*	*79.9%*	*81.2%*	*74.9%*	*67.5%*	*56.4%*	*47.3%*	*56.7%*	*63.4%*	*59.6%*	*64.8%*

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

If the average oil price reaches US$ 25 in 2020 then total revenues would be about 35% lower than the government's current forecast

As an example, if the average oil price reaches US$ 25 per barrel this year (vs. the existing forecast of US$ 55) and assuming an implied tax rate of 35.6% then total revenues would be 35.3% lower than the current budget forecast. This also means that the budget deficit would reach 6.0% of GDP this year rather than the current projection of a surplus of 1.2% of GDP for the same level of expenditures.

Change in Revenues vs Budget 2020

		Average Oil Price (US$)						
		25.0	30.0	35.0	40.0	45.0	50.0	55.0
Implied Tax Rate	30.0%	-40.0%	-35.0%	-30.1%	-25.1%	-20.1%	-15.2%	-10.2%
	32.5%	-37.9%	-32.5%	-27.2%	-21.8%	-16.4%	-11.0%	-5.6%
	35.6%	-35.3%	-29.5%	-23.6%	-17.7%	-11.8%	-5.9%	0.0%
	37.5%	-33.8%	-27.6%	-21.4%	-15.2%	-9.0%	-2.8%	3.5%
	40.0%	-31.7%	-25.1%	-18.5%	-11.9%	-5.2%	1.4%	8.0%

Source: Eaglestone Securities.

Overall Fiscal Balance (% of GDP)

		Average Oil Price (US$)						
		25.0	30.0	35.0	40.0	45.0	50.0	55.0
Implied Tax Rate	30.0%	-6.9%	-5.9%	-4.9%	-3.9%	-2.9%	-1.9%	-0.9%
	32.5%	-6.5%	-5.4%	-4.3%	-3.2%	-2.1%	-1.0%	0.1%
	35.6%	-6.0%	-4.8%	-3.6%	-2.4%	-1.2%	0.0%	1.2%
	37.5%	-5.7%	-4.4%	-3.1%	-1.9%	-0.6%	0.7%	1.9%
	40.0%	-5.2%	-3.9%	-2.5%	-1.2%	0.2%	1.5%	2.9%

Source: Eaglestone Securities.

Eurobond yields for oil producing countries surged in recent weeks after the collapse in oil prices

The table below provides the latest yields for several African Eurobonds, including Angola's issues in 2015, 2018 and, more recently, in November 2019. We note the significant changes in the Eurobond yields for oil producing countries like Angola, Nigeria, Gabon and Ghana, which reflect the latest developments in global oil markets.

African Eurobonds			Yields	Change				Last 12 Months	
Country	Maturity	Coupon	20/03/2020	1 Week	1 Month	1 Year	Year-to-Date	Low	High
Angola	12/11/2025	9.500%	20.292%	0.475%	23.727%	18.334%	22.568%	5.727%	23.124%
Angola	09/05/2028	8.250%	17.649%	0.943%	13.391%	11.131%	12.589%	6.694%	19.339%
Angola	08/05/2048	9.375%	16.153%	1.112%	8.859%	8.219%	8.484%	8.177%	17.197%
Angola	26/11/2029	8.000%	16.491%	0.893%	11.124%	8.537%	10.805%	6.806%	17.846%
Angola	26/11/2049	9.125%	15.668%	0.900%	8.006%	6.573%	7.779%	8.297%	16.806%
Dem. Republic of Congo	30/06/2029	4.000%	8.769%	0.252%	0.601%	-0.126%	0.450%	7.529%	9.046%
Ethiopia	11/12/2024	6.625%	9.715%	1.537%	7.766%	3.440%	6.982%	4.370%	9.714%
Gabon	16/06/2025	6.950%	16.994%	1.495%	16.478%	8.544%	13.667%	5.022%	17.694%
Ghana	07/08/2023	7.875%	13.004%	3.388%	17.998%	8.177%	13.458%	3.958%	13.215%
Ivory Coast	03/03/2028	6.375%	8.284%	1.308%	4.669%	1.409%	3.249%	4.751%	8.467%
Kenya	24/06/2024	6.875%	9.691%	2.848%	8.257%	4.011%	7.155%	4.403%	9.783%
Namibia	29/10/2025	5.250%	8.431%	1.413%	5.900%	2.193%	4.820%	3.970%	8.472%
Nigeria	12/07/2023	6.375%	15.147%	2.422%	21.667%	11.861%	16.323%	3.421%	15.173%
Rwanda	02/05/2023	6.625%	10.100%	0.930%	11.741%	5.079%	9.130%	3.643%	10.199%
Senegal	30/07/2024	6.250%	7.072%	1.483%	7.065%	1.993%	5.946%	3.320%	7.139%
Seychelles	01/01/2026	7.000%	7.396%	0.239%	0.365%	-0.305%	0.145%	6.880%	7.528%
South Africa	16/09/2025	5.875%	6.312%	1.928%	4.429%	1.561%	3.804%	3.592%	6.874%
Zambia	30/07/2027	8.970%	29.306%	1.537%	7.395%	10.823%	7.293%	13.785%	30.732%

Source: Bloomberg.

GOVERNMENT ACCOUNTS		SENSITIVITY TO OIL PRICES (US$/BARREL)						
AKZ BILLION	2020 Budget	25.0	30.0	35.0	40.0	45.0	50.0	55.0
Scenario 1 (Oil Tax Rate of 30.0%):								
Revenues	**8,611**	**5,168**	**5,595**	**6,023**	**6,450**	**6,878**	**7,305**	**7,733**
% of GDP	*20.4%*	*12.3%*	*13.3%*	*14.3%*	*15.3%*	*16.3%*	*17.3%*	*18.4%*
Tax Revenues	8,097	4,654	5,081	5,509	5,936	6,364	6,791	7,219
Oil Revenues	5,581	2,137	2,565	2,992	3,420	3,847	4,275	4,702
% of Total Tax Revenues	*68.9%*	*45.9%*	*50.5%*	*54.3%*	*57.6%*	*60.5%*	*62.9%*	*65.1%*
Change in Revenues vs. 2020 Budget		*-40.0%*	*-35.0%*	*-30.1%*	*-25.1%*	*-20.1%*	*-15.2%*	*-10.2%*
Scenario 2 (Oil Tax Rate of 32.5%):								
Revenues	**8,611**	**5,346**	**5,809**	**6,272**	**6,735**	**7,198**	**7,662**	**8,125**
% of GDP	*20.4%*	*12.7%*	*13.8%*	*14.9%*	*16.0%*	*17.1%*	*18.2%*	*19.3%*
Tax Revenues	8,097	4,832	5,295	5,758	6,221	6,684	7,148	7,611
Oil Revenues	5,581	2,315	2,779	3,242	3,705	4,168	4,631	5,094
% of Total Tax Revenues	*68.9%*	*47.9%*	*52.5%*	*56.3%*	*59.5%*	*62.4%*	*64.8%*	*66.9%*
Change in Revenues vs. 2020 Budget		*-37.9%*	*-32.5%*	*-27.2%*	*-21.8%*	*-16.4%*	*-11.0%*	*-5.6%*
Scenario 3 (Oil Tax Rate of 35.6%):								
Revenues	**8,611**	**5,567**	**6,075**	**6,582**	**7,089**	**7,596**	**8,104**	**8,611**
% of GDP	*20.4%*	*13.2%*	*14.4%*	*15.6%*	*16.8%*	*18.0%*	*19.2%*	*20.4%*
Tax Revenues	8,097	5,053	5,561	6,068	6,575	7,082	7,590	8,097
Oil Revenues	5,581	2,537	3,044	3,551	4,059	4,566	5,073	5,581
% of Total Tax Revenues	*68.9%*	*50.2%*	*54.7%*	*58.5%*	*61.7%*	*64.5%*	*66.8%*	*68.9%*
Change in Revenues vs. 2020 Budget		*-35.3%*	*-29.5%*	*-23.6%*	*-17.7%*	*-11.8%*	*-5.9%*	*0.0%*
Scenario 4 (Oil Tax Rate of 37.5%):								
Revenues	**8,611**	**5,702**	**6,237**	**6,771**	**7,305**	**7,840**	**8,374**	**8,908**
% of GDP	*20.4%*	*13.5%*	*14.8%*	*16.1%*	*17.3%*	*18.6%*	*19.9%*	*21.1%*
Tax Revenues	8,097	5,188	5,723	6,257	6,791	7,326	7,860	8,394
Oil Revenues	5,581	2,672	3,206	3,740	4,275	4,809	5,343	5,878
% of Total Tax Revenues	*68.9%*	*51.5%*	*56.0%*	*59.8%*	*62.9%*	*65.6%*	*68.0%*	*70.0%*
Change in Revenues vs. 2020 Budget		*-33.8%*	*-27.6%*	*-21.4%*	*-15.2%*	*-9.0%*	*-2.8%*	*3.5%*
Scenario 5 (Oil Tax Rate of 40.0%):								
Revenues	**8,611**	**5,880**	**6,450**	**7,020**	**7,590**	**8,160**	**8,730**	**9,300**
% of GDP	*20.4%*	*14.0%*	*15.3%*	*16.7%*	*18.0%*	*19.4%*	*20.7%*	*22.1%*
Tax Revenues	8,097	5,366	5,936	6,506	7,076	7,646	8,216	8,786
Oil Revenues	5,581	2,850	3,420	3,990	4,560	5,130	5,700	6,270
% of Total Tax Revenues	*68.9%*	*53.1%*	*57.6%*	*61.3%*	*64.4%*	*67.1%*	*69.4%*	*71.4%*
Change in Revenues vs. 2020 Budget		*-31.7%*	*-25.1%*	*-18.5%*	*-11.9%*	*-5.2%*	*1.4%*	*8.0%*
Non-oil Revenues	2,517	2,517	2,517	2,517	2,517	2,517	2,517	2,517
Non-tax Revenues	514	514	514	514	514	514	514	514
Expenditures	**8,092**	**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%*	*19.2%*
Current Expenditures	6,761	6,761	6,761	6,761	6,761	6,761	6,761	6,761
Scenario 1 (Oil Tax Rate of 30.0%):								
Primary Fiscal Balance	**1,850**	**-1,593**	**-1,165**	**-738**	**-311**	**117**	**544**	**972**
% of GDP	*4.4%*	*-3.8%*	*-2.8%*	*-1.8%*	*-0.7%*	*0.3%*	*1.3%*	*2.3%*
Overall Fiscal Balance	519	-2,924	-2,496	-2,069	-1,641	-1,214	-786	-359
% of GDP	*1.2%*	*-6.9%*	*-5.9%*	*-4.9%*	*-3.9%*	*-2.9%*	*-1.9%*	*-0.9%*
Scenario 2 (Oil Tax Rate of 32.5%):								
Primary Fiscal Balance	**1,850**	**-1,415**	**-952**	**-489**	**-26**	**438**	**901**	**1,364**
% of GDP	*4.4%*	*-3.4%*	*-2.3%*	*-1.2%*	*-0.1%*	*1.0%*	*2.1%*	*3.2%*
Overall Fiscal Balance	519	-2,746	-2,283	-1,819	-1,356	-893	-430	33
% of GDP	*1.2%*	*-6.5%*	*-5.4%*	*-4.3%*	*-3.2%*	*-2.1%*	*-1.0%*	*0.1%*
Scenario 3 (Oil Tax Rate of 35.6%):								
Primary Fiscal Balance	**1,850**	**-1,194**	**-686**	**-179**	**328**	**836**	**1,343**	**1,850**
% of GDP	*4.4%*	*-2.8%*	*-1.6%*	*-0.4%*	*0.8%*	*2.0%*	*3.2%*	*4.4%*
Overall Fiscal Balance	519	-2,525	-2,017	-1,510	-1,003	-495	12	519
% of GDP	*1.2%*	*-6.0%*	*-4.8%*	*-3.6%*	*-2.4%*	*-1.2%*	*0.0%*	*1.2%*
Scenario 4 (Oil Tax Rate of 37.5%):								
Primary Fiscal Balance	**1,850**	**-1,059**	**-524**	**10**	**544**	**1,079**	**1,613**	**2,147**
% of GDP	*4.4%*	*-2.5%*	*-1.2%*	*0.0%*	*1.3%*	*2.6%*	*3.8%*	*5.1%*
Overall Fiscal Balance	519	-2,389	-1,855	-1,321	-786	-252	282	817
% of GDP	*1.2%*	*-5.7%*	*-4.4%*	*-3.1%*	*-1.9%*	*-0.6%*	*0.7%*	*1.9%*
Scenario 5 (Oil Tax Rate of 40.0%):								
Primary Fiscal Balance	**1,850**	**-880**	**-311**	**259**	**829**	**1,399**	**1,969**	**2,539**
% of GDP	*4.4%*	*-2.1%*	*-0.7%*	*0.6%*	*2.0%*	*3.3%*	*4.7%*	*6.0%*
Overall Fiscal Balance	519	-2,211	-1,641	-1,071	-501	69	639	1,209
% of GDP	*1.2%*	*-5.2%*	*-3.9%*	*-2.5%*	*-1.2%*	*0.2%*	*1.5%*	*2.9%*

Source: Angolan authorities and Eaglestone Securities.

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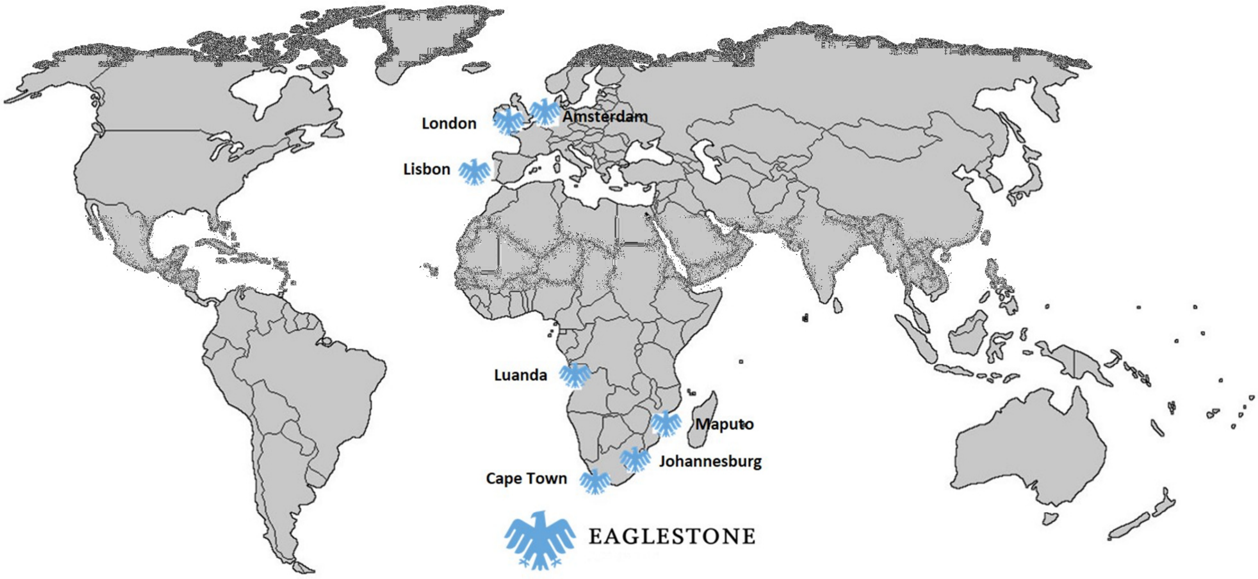

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The company has three business activities - financial advisory services, asset management and brokerage - and currently has offices in Amsterdam, Cape Town London, Lisbon, Luanda and Maputo

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