The Angolan Economy

Revised Budget (2019)

Research
May 2019

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

First budget surplus since 2013

Significantly higher than projected average oil prices in 2018 (US$ 71.9 vs. US$ 50 forecasted), coupled with lower than expected current expenditures (-6.6%), allowed the Angolan government to reach a fiscal surplus for the first time since 2013. This pricing effect more than compensated the lower oil production in the year, as Angola continues to face bottlenecks and aging oil fields that have hindered output in recent years. It was also more than sufficient to offset the impact of lower taxes in the non-oil sector that reflects a persistently weak economic environment in the country. All in all, the 2018 budget surplus stood at 3.0% of GDP, which compares with deficit of 3.2% of GDP initially foreseen and -6.3% of GDP in the previous year. Moreover, the primary balance (excludes interest payments) reached a surplus of 7.4% of GDP (vs. -2.9% of GDP in 2017).

Soft economic expansion expected this year

The government's updated macro forecasts included in the revised budget for 2019 continue to assume that Angola will return to economic growth following a period of recession in the past three years (2016-18). The new real GDP growth assumption of 0.3% compares with a previous estimate of 2.8% and reflects another contraction in activity in the oil and gas sector (-3.5%) and a softer expansion in the non-oil sector than expected before (1.6% vs. 2.6% previously). It is also worth noting that the government lowered its forecasts for average oil prices for this year from US$ 68 to US$ 55, stating that this new price would be more aligned with the latest IMF and consensus projections, and oil production by 8.6% to 1.435 million barrels per day.

Revised budget assumes lower revenues/expenditures

The revised budget for 2019, which received parliamentary approval on May 22, is less expansionary than the initial budget proposal after the government lowered total expected receipts and expenditures by 8.4% to AKZ 10,401 billion. This is roughly US$ 32 billion at the current exchange rate and represents 33.6% of GDP (vs. 32.6% of GDP previously). The government is still expected to finance its expenditures by relying more on fiscal revenues (57.6% of total proceeds). However, lower receipts projected for this year (-19.4%) will require an increased reliance in financing from overseas markets (+29.5%) than previously thought, putting further strain on already elevated government debt levels (80% of GDP in 2018).

Government projects a balanced budget for 2019

The revised budget assumes that tax receipts from the oil sector will stand at nearly two-thirds of the level previously forecasted, reflecting the lower assumptions for oil price and output. This impact is expected to outweigh a relatively larger contribution from non-oil sector related taxes (16.5%), as VAT receipts start to kick-in during the second half of 2019. This means that the government will have to aggressively lower expenditures. In particular, the new budget foresees a marked reduction in spending on goods and services (-39.5%), subsidies (-37.3%) as well as investment (-21%). Overall, the government expects to reach a balanced budget this year with a primary surplus of 5.2% of GDP. These projections compare with previous assumptions of a surplus of 1.5% and 6.1%, respectively.

FISCAL ACCOUNTS (2018)

The government reached a budget surplus of 3.0% of GDP in 2018 (vs. deficit projection of -3.2% of GDP)

The Angolan government's latest figures indicate that it reached a budget surplus of AKZ 807 billion in 2018. This compares with an initial budget projection of a deficit of AKZ 805 billion in the period and came as a result of a significantly larger than estimated contribution from tax revenues in the oil sector (+57.8% deviation) and lower current expenditures (-6.6% deviation). Overall, this means that the government reached a budget surplus representing 3.0% of GDP as opposed to a deficit of 3.2% of GDP initially projected. It also means that this is the first time since 2013 that Angola achieves a fiscal surplus.

The government's accounts benefited from a much larger contribution in tax revenues from the oil sector

The much larger contribution in tax proceeds from the oil sector was due to a materially higher oil price observed during 2018. Indeed, the average oil price reached US$ 71.9 per barrel last year, which compares with a projection of US$ 50 included in the initial budget. This pricing effect more than compensated for the lower oil production in the year, as output stood at 542.3 million barrels (corresponding to 1.486 million barrels per day) or 12.5% lower than the initial annual output projection of 620 million barrels. On the other hand, the contribution from taxes in the non-oil sector stood 2.7% short of expectations, as economic activity was weaker than initially expected and led to lower taxes and capital gains in the period.

They also benefited from slightly lower than expected expenditures, despite higher interest expenses

Meanwhile, total expenses came in lower than expected for the year (-1.7% deviation) as the local authorities spent less than initially anticipated on wages, goods and services as well as on transfers, namely subsidies. Interest expenditures, however, stood more than 25% above the expected amount for the period. This is the result of the surge in the country's debt levels in recent years, with total public debt standing above 80% of GDP last year (vs. 35% of GDP in 2013).

GOVERNMENT ACCOUNTS AKZ BILLION	2018 Budget	2018 Forecast	Forecast vs. Budget
Revenues	**4,404**	**5,930**	**34.6%**
% of GDP	*17.6%*	*21.8%*	
Tax Revenues	4,139	5,478	32.3%
Oil Revenues	2,399	3,785	57.8%
Non-oil Revenues	1,740	1,693	-2.7%
Non-tax Revenues	265	452	70.5%
Expenditures	**5,209**	**5,123**	**-1.7%**
% of GDP	*20.9%*	*18.9%*	
Current Expenditures	4,230	3,950	-6.6%
Wages	1,690	1,539	-8.9%
Goods and Services	972	749	-23.0%
Interests	968	1,212	25.2%
Transfers	600	450	-25.0%
Subsidies	225	85	-62.4%
Capital Expenditure	979	1,173	19.9%
Primary Fiscal Balance	**164**	**2,019**	**1134.2%**
% of GDP	*0.7%*	*7.4%*	
Overall Fiscal Balance	**-805**	**807**	**n.m.**
% of GDP	*-3.2%*	*3.0%*	

Sources: Angolan authorities and Eaglestone Securities.

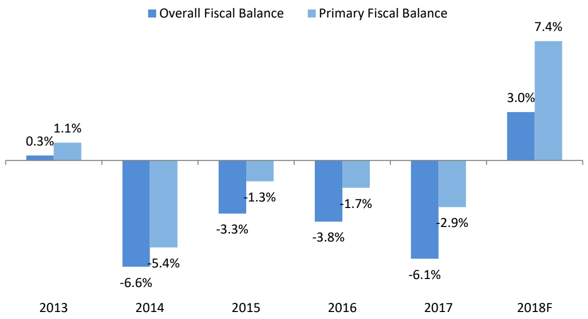
The government's fiscal policy is largely determined by the evolution of oil prices

The government's fiscal policy over the years has been largely determined by the evolution of oil prices in each of those periods. As stated above, the year 2018 saw the return of a surplus to the government's accounts, both in the total and primary fiscal accounts. However, public debt levels continued to increase markedly in the period. The debt trajectory in recent years has been determined by three main factors, namely (1) the successive decline in oil prices and its impact on primary fiscal deficits, (2) the depreciation of the kwanza and (3) the deterioration in economic conditions, with Angola recording its third consecutive year of recession in 2018.

Public debt levels have increased significantly in recent years

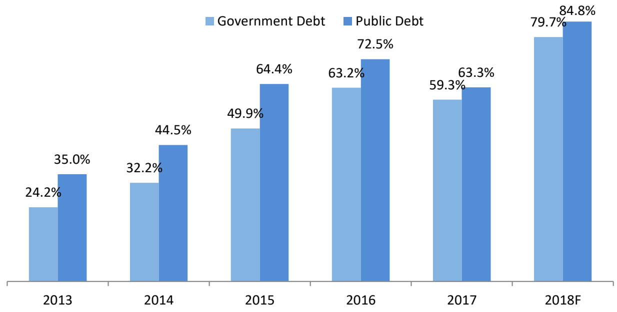
Overall, the stock of government debt at the end of last year stood at an estimated AKZ 21,649 billion while the stock of public debt reached AKZ 23,022 billion. This corresponds to 79.7% and 84.8% of GDP, respectively. As depicted below, these figures are significantly higher than the ones observed in 2013.

OVERALL AND PRIMARY FISCAL BALANCES (% OF GDP)



Source: Ministry of Finance.

PUBLIC AND GOVERNMENT DEBTS (% OF GDP)



Sources: Angolan authorities and IMF.

REVISED BUDGET (2019)

The government cut its real GDP growth forecast for this year to 0.3% (from a previous estimate of 2.8%)

The government's updated macroeconomic projections included in its revised budget for 2019 continue to assume that Angola will return to economic growth after a period of recession in the past three years (2016-18). The new real GDP growth forecast of 0.3% this year compares with an initial projection of 2.8% and follows a downward revision in activity in both the oil & gas and non-oil sectors. In particular, the government now assumes that activity in the oil & gas sector will decline 3.5% from the previous year while growth in the non-oil sector will be slower than previously anticipated at 1.6%. These figures compare with initial forecasts for an expansion of 3.1% and 2.6%, respectively, in these sectors.

The projection for average oil prices this year was lowered to US$ 55 (from US$ 68 previously)

This year's revised budget also includes a downward revision in the expected average oil price. The government now anticipates that oil prices will average US$ 55 a barrel in 2019, which is US$ 13 (or near 20%) lower than the previous assumption of US$ 68. This new projection also compares with an average oil price of US$ 71.9 recorded in 2018.

The forecast for average oil production was also cut by 8.6% to 1.435 million bpd

Moreover, the local authorities lowered their forecast for average daily oil production to 1.435 million barrels, an 8.6% reduction from the previous estimate of 1.570 million barrels per day (bpd). The government expects that output will be 3.4% less than the daily oil production of the previous year (1.486 million bpd), meaning that the downward trend in oil production recorded in recent years is expected to persist. In 2019, the oil sector is anticipated to see (1) the restart of production in the Raia, Bagre and Albacore fields in Block 2/05 (the northern part of the country) and (2) the start of production in the Vandmbu field in Block 15/06 (offshore) and in the Kaombo area. The latter is currently Angola's largest deep-water offshore development, where Total and its partners are reportedly expected to produce an estimated 115,000 bpd.

ECONOMIC INDICATORS	2016	2017	2018 (1)	2018 (2)	2019 (1)	2019 (3)	Change 2019 (3) vs. 2019 (1)
Real GDP Growth	**-2.6%**	**-0.1%**	**-1.1%**	**-1.7%**	**2.8%**	**0.3%**	**-2.5%**
Oil & Gas Sector	-2.7%	-5.3%	-8.2%	-9.2%	3.1%	-3.5%	-6.6%
Non-oil Sector	-2.5%	1.2%	1.0%	0.3%	2.6%	1.6%	-1.0%
Nominal GDP (AKZ billion)	**16,550**	**20,262**	**24,976**	**27,157**	**34,808**	**30,945**	**-11.1%**
Oil Sector	3,457	4,240	5,270	7,899	11,775	7,741	-34.3%
Non-oil Sector	13,093	16,022	19,706	19,258	23,033	23,204	0.7%
Inflation	41.1%	23.7%	28.8%	18.6%	15.0%	15.0%	0.0%
Diamond Production (Thousand Carats)	8,964.1	8,964.1	9,047.7	8,899.3	9,442.0	9,547.3	1.1%
Diamond Average Price (US$/Carat)	118.0	115.1	124.2	141.1	141.1	154.4	9.4%
Annual Oil and LNG Production	638.2	643.2	674.1	576.3	608.6	-	-
Oil Production (MBbl)	630.1	597.6	620.0	542.3	573.2	523.7	-8.6%
LNG Production (MBOE)	8.1	45.6	54.1	34.0	35.4	-	-
Average Daily Oil Production (MBbl/day)	1.726	1.637	1.699	1.486	1.570	1.435	-8.6%
Average Oil Price (US$/Bbl)	40.9	53.9	50.0	71.9	68.0	55.0	-19.1%
Average LNG Price (US$/BOE)	29.0	29.0	29.0	29.0	29.0	-	-

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

Inflation forecasts were left unchanged at 15%, with inflation expected to fall

Meanwhile, the government did not make any changes to its inflation forecast for 2019, with inflation expected to maintain a downward trajectory toward 15% (from 18.6% last year). This projection will largely depend on the evolution of the kwanza exchange rate, which will in turn be determined by the balance (and coordination) between fiscal and monetary policies. The government reinforced its commitment to the new foreign exchange policy announced by the central bank in early-2018 that aims to eliminate the persistent imbalances in the country's foreign exchange market.

from 18.6% in 2018

The government lowered its revenue projection by 19.4% after cutting receipts from the oil sector by nearly a third

In the revised budget, the government lowered its revenue projection to AKZ 5,986 billion for this year. This is a reduction of 19.4% from its initial estimate of AKZ 7,424 billion and is due to lower than expected tax receipts from the oil sector (-32.9%). The government also raised its forecast for non-oil related tax revenues (+16.5%) and other revenues (+8.0%), but these were insufficient to offset the negative impact from lower oil receipts. It is also worth noting that the new forecast for oil receipts this year stands 5.7% below the 2018 figure. This is not surprising considering the lower forecasts for the average oil price and production for 2019.

Expenditures forecasts were also reduced, namely spending on goods and services and capital expenditures

On the other hand, the projection for expenditures was cut by 13.6% to AKZ 5,980 billion, with the government lowering spending levels for 2019 across the board. In particular, current expenditures are now projected to stand 11.9% below its initial level after a sharp cut of 39.5% in spending on goods and services. This notwithstanding, current expenditures are still forecasted to stand more than 25% above the 2018 level as interest payments will remain at elevated levels. We also note that capital expenditures were significantly lowered (-21%) and are also expected to decline from the previous year.

The government now expects to a lower primary surplus and a balanced budget for 2019

Overall, the government now expects to reach a lower primary surplus (which excludes interest payments) of AKZ 1,605 billion this year following an earlier projection of AKZ 2,131 billion (-24.7%) and a balanced budget for the period, erasing almost entirely its earlier budget surplus forecast of AKZ 505 billion.

GOVERNMENT ACCOUNTS					% Change					
AKZ BILLION	2018 (1)	2018 (2)	2019 (1)	2019 (3)	2018 (2) / 2018 (1)	2019 (1) / 2018 (1)	2019 (1) / 2018 (2)	2019 (3) / 2018 (1)	2019 (3) / 2018 (2)	2019 (3) / 2019 (1)
Revenues	**4,404**	**5,930**	**7,424**	**5,986**	**34.6%**	**68.6%**	**25.2%**	**35.9%**	**1.0%**	**-19.4%**
Tax Revenues	4,139	5,478	7,033	5,564	32.3%	69.9%	28.4%	34.4%	1.6%	-20.9%
Oil Revenues	2,399	3,785	5,319	3,568	57.8%	121.7%	40.5%	48.7%	-5.7%	-32.9%
Non-oil Revenues	1,740	1,693	1,714	1,996	-2.7%	-1.5%	1.2%	14.7%	17.9%	16.5%
Non-tax Revenues	265	452	391	422	70.5%	47.6%	-13.4%	59.4%	-6.5%	8.0%
Expenditures	**5,209**	**5,123**	**6,919**	**5,980**	**-1.7%**	**32.8%**	**35.1%**	**14.8%**	**16.7%**	**-13.6%**
Current Expenditures	4,230	3,950	5,623	4,956	-6.6%	32.9%	42.4%	17.2%	25.5%	-11.9%
Wages	1,690	1,539	1,793	1,793	-8.9%	6.1%	16.5%	6.1%	16.5%	0.0%
Goods and Services	972	749	1,400	847	-23.0%	44.0%	86.9%	-12.9%	13.1%	-39.5%
Interests	968	1,212	1,626	1,599	25.2%	67.9%	34.1%	65.1%	31.9%	-1.7%
Transfers	600	450	805	717	-25.0%	34.1%	78.9%	19.5%	59.4%	-10.9%
Capital Expenditure	979	1,173	1,296	1,024	19.9%	32.4%	10.4%	4.6%	-12.8%	-21.0%
Primary Fiscal Balance	**164**	**2,019**	**2,131**	**1,605**	**1134.2%**	**1202.8%**	**5.6%**	**881.2%**	**-20.5%**	**-24.7%**
Overall Fiscal Balance	**-805**	**807**	**505**	**6**	**n.m.**	**n.m.**	**-37.4%**	**n.m.**	**-99.2%**	**-98.8%**

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

Revenues as a percentage of GDP returned to double-digit figures in 2018

The table in the next page 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. In 2018, the strong recovery in oil prices meant that tax revenues from this sector as a percentage of GDP returned to double-digit figures (13.9%). The revised budget assumes that this contribution will stand at 11.5% of GDP this year, which compares with an initial forecast of 15.3%.

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

The amount of expenditures as a percentage of GDP has also declined and, in the 2019 revised budget, is expected to stand at 19.3% of GDP (lower than the earlier forecast of 19.9%, but up from 18.9% in 2018). Most notably, we highlight the continued decline in capital expenditures as a percentage of GDP. These are now expected to stand at 3.3% of GDP, down from 3.7% in the initial budget proposal and 4.3% in 2018. Current expenditures are projected to reach 16% of GDP. This figure is not much different than the 16.2% of GDP in the budget proposal and compares with 14.5% in 2018.

The revised budget for 2019 assumes a primary surplus of 5.2% of GDP

This means that the revised budget for 2019 foresees a primary surplus of 5.2% of GDP and a balanced budget (after interest payments). Recall that the initial budget proposal assumed a primary surplus of 6.1% of GDP and a budget surplus of 1.5% of GDP. We note that these new projections stand below the ones recorded in 2018, whereby the government recorded a surplus both in the primary and overall budget accounts of 7.4% and 3.0% of GDP, respectively.

GOVERNMENT ACCOUNTS										% of GDP
	2012	2013	2014	2015	2016	2017	2018 (1)	2018 (2)	2019 (1)	2019 (3)
Revenues	**46.5%**	**40.2%**	**35.3%**	**27.3%**	**17.4%**	**17.5%**	**17.6%**	**21.8%**	**21.3%**	**19.3%**
Tax Revenues	44.4%	38.2%	32.9%	24.7%	15.6%	15.8%	16.6%	20.2%	20.2%	18.0%
Oil Revenues	37.7%	30.1%	23.8%	15.4%	8.2%	9.9%	9.6%	13.9%	15.3%	11.5%
Non-oil Revenues	6.6%	8.1%	9.1%	9.3%	7.4%	5.9%	7.0%	6.2%	4.9%	6.5%
Of which: Income Taxes	3.0%	4.2%	4.4%	5.4%	4.3%	4.3%	3.3%	3.1%	2.4%	2.7%
Non-tax Revenues	2.1%	2.0%	2.4%	2.6%	1.8%	1.7%	1.1%	1.7%	1.1%	1.4%
Expenditures	**39.8%**	**39.9%**	**41.9%**	**30.6%**	**21.9%**	**23.7%**	**20.9%**	**18.9%**	**19.9%**	**19.3%**
Current Expenditures	29.3%	28.5%	29.4%	24.7%	18.0%	17.3%	16.9%	14.5%	16.2%	16.0%
Wages	9.5%	9.6%	10.6%	11.3%	8.4%	7.4%	6.8%	5.7%	5.2%	5.8%
Goods and Services	11.9%	10.2%	10.0%	6.4%	3.7%	4.1%	3.9%	2.8%	4.0%	2.7%
Interests	1.0%	0.8%	1.2%	2.0%	2.8%	3.3%	3.9%	4.5%	4.7%	5.2%
Transfers	6.9%	7.9%	7.6%	5.0%	3.1%	2.3%	2.4%	1.7%	2.3%	2.3%
Capital Expenditure	10.5%	11.4%	12.5%	6.0%	3.9%	6.5%	3.9%	4.3%	3.7%	3.3%
Public Investment	10.5%	11.4%	12.4%	5.8%	3.8%	4.9%	3.8%	3.5%	2.7%	3.0%
Primary Fiscal Balance	**7.6%**	**1.1%**	**-5.4%**	**-1.3%**	**-1.7%**	**-2.9%**	**0.7%**	**7.4%**	**6.1%**	**5.2%**
Overall Fiscal Balance	**6.7%**	**0.3%**	**-6.6%**	**-3.3%**	**-4.5%**	**-6.3%**	**-3.2%**	**3.0%**	**1.5%**	**0.0%**

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

Angola remains highly dependent on oil receipts, as these are expected to account for nearly 60% of total revenues in 2019

The revised budget accounts also show that the government expects a larger contribution of tax receipts from the non-oil sector this year when compared with its earlier forecasts. In particular, tax revenues from the non-oil sector are expected to represent exactly a third of total revenues this year whereby the government previously expected these to account for 23.1% of the total. This figure is higher than the 28.6% recorded in 2018. This reflects the dual impact from lower expected oil prices on government revenues, but also increased efforts to broaden tax collection from other sources outside of the oil sector. It includes the reforms to the country's tax system especially the implementation of the value-added tax (VAT) expected to take place in July.

The government is expected to allocate a larger share of its spending toward interest expenditures

On the other hand, the figures below show that the government continues to allocate the largest share of its spending to pay the salaries of public sector workers. These are expected to represent multi-year highs of 82.9% of the total (vs. 81.3% in the initial budget proposal). However, the figure that clearly stands out once again is the proportion of public spending to be allocated towards interest payments. The revised budget assumes that these will amount to 26.7% of total expenditures this year, above the 23.7% in 2018.

GOVERNMENT ACCOUNTS										% of Total
	2012	2013	2014	2015	2016	2017	2018 (1)	2018 (2)	2019 (1)	2019 (3)
Revenues										
Tax Revenues (Oil)	81.2%	74.9%	67.5%	56.4%	47.3%	56.7%	54.5%	63.8%	71.6%	59.6%
Tax Revenues (Non-Oil)	14.3%	20.1%	25.6%	34.0%	42.3%	33.7%	39.5%	28.6%	23.1%	33.3%
Non-tax Revenues	4.5%	5.1%	6.9%	9.6%	10.4%	9.6%	6.0%	7.6%	5.3%	7.1%
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	73.6%	71.4%	70.2%	80.5%	82.3%	72.7%	81.2%	77.1%	81.3%	82.9%
Wages	23.8%	24.0%	25.3%	36.8%	38.3%	31.3%	32.4%	30.0%	25.9%	30.0%
Goods and Services	30.0%	25.5%	23.9%	20.9%	17.1%	17.5%	18.7%	14.6%	20.2%	14.2%
Interests	2.4%	2.1%	2.8%	6.6%	12.9%	14.1%	18.6%	23.7%	23.5%	26.7%
Transfers	17.4%	19.8%	18.2%	16.2%	14.0%	9.9%	11.5%	8.8%	11.6%	12.0%
Capital Expenditure	26.4%	28.6%	29.8%	19.5%	17.7%	27.3%	18.8%	22.9%	18.7%	17.1%
Total Expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

The government expects to spend less on all sectors of the economy this year than previously anticipated, but some areas are still likely to see an increase from 2018

In terms of expenditures by sector, the government now expects to spend AKZ 5,068 billion in 2019 if excluding spending on public debt operations. This is a 13.9% reduction from what it anticipated earlier. We note that all sectors suffered a downward revision from their previous estimates, with spending on the economic and social sectors suffering the biggest cuts (23.5% and 16%, respectively). We detail the revised spending figures by sector in the table on the next page. Despite the lower expenditure anticipated for this year, it is worth highlighting that the government still expects to increase spending in some key areas of the local economy when compared with 2018. These include healthcare (+51.3%), education (+12.4%) and agriculture (+148%). On the other hand, the government expects to spend much less on housing (-37.1%) and social protection (-16.9%).

EXPENDITURES BY SECTOR				Change			% of GDP		
AKZ BILLION	2018	2019	2019 (1)	2019 / 2018	2019 (1) / 2018	2019 (1) / 2019	2018	2019	2019 (1)
Social Sector	1,972	2,381	2,001	20.8%	1.5%	-16.0%	7.3%	6.8%	6.5%
Education	560	677	629	21.0%	12.4%	-7.1%	2.1%	1.9%	2.0%
Health	388	750	588	93.0%	51.3%	-21.6%	1.4%	2.2%	1.9%
Social Protection	621	527	516	-15.2%	-16.9%	-2.0%	2.3%	1.5%	1.7%
Housing	362	369	228	2.0%	-37.1%	-38.3%	1.3%	1.1%	0.7%
Other	41	59	41	44.6%	0.8%	-30.3%	0.2%	0.2%	0.1%
Economic Sector	764	1,265	968	65.5%	26.6%	-23.5%	2.8%	3.6%	3.1%
Agriculture	39	194	97	397.4%	148.2%	-50.1%	0.1%	0.6%	0.3%
Transports	192	339	201	76.4%	4.4%	-40.8%	0.7%	1.0%	0.6%
Fuel and Energy	225	353	236	56.6%	4.6%	-33.2%	0.8%	1.0%	0.8%
Extractive, Manufacturing and Construction	30	74	60	149.7%	102.0%	-19.1%	0.1%	0.2%	0.2%
General Economic Areas, Comercial and Labor	260	279	354	7.4%	36.5%	27.0%	1.0%	0.8%	1.1%
Communication and IT	14	22	18	54.4%	24.2%	-19.5%	0.1%	0.1%	0.1%
Other Economic Activities	4	4	3	-14.1%	-40.3%	-30.6%	0.0%	0.0%	0.0%
Defense, Security and Social Order	970	1,046	1,000	7.8%	3.0%	-4.4%	3.6%	3.0%	3.2%
General Public Services and Other	906	1,194	1,099	31.8%	21.4%	-7.9%	3.3%	3.4%	3.6%
Total Expend. (Ex. Public Debt Operations)	**4,613**	**5,885**	**5,068**	**27.6%**	**9.9%**	**-13.9%**	**17.0%**	**16.9%**	**16.4%**

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

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

The largest share of expenditures is still expected to be allocated to the social sector (39.5%), namely to education, healthcare and social protection. Defense, security and social order will see close to 20% of total spending, followed by the economic sector which is expected to get 19.1% of the total. On the latter, we note that agriculture is only forecasted to receive 1.9% of total expenditures this year. Although this is a significantly higher share than in recent years, it is nevertheless a marked reduction from what the government envisaged in its initial budget proposal. It is also worth noting that the combined spending on education and healthcare (24%) is expected to surpass expenditures on defense and security (19.7%). This is again a clear shift in policy from the previous administration.

EXPENDITURES BY SECTOR									% of Total
AKZ BILLION	2012	2013	2014	2015	2016	2017	2018	2019	2019 (1)
Social Sector	33.1%	33.6%	30.0%	43.9%	40.6%	32.3%	42.8%	40.5%	39.5%
Education	8.4%	8.8%	6.2%	11.6%	9.6%	1.1%	12.1%	11.5%	12.4%
Health	5.1%	5.6%	4.3%	6.7%	6.4%	7.0%	8.4%	12.7%	11.6%
Social Protection	12.7%	11.1%	9.6%	17.5%	16.0%	15.9%	13.5%	8.9%	10.2%
Housing	4.1%	4.7%	7.9%	6.3%	7.9%	7.4%	7.8%	6.3%	4.5%
Other	2.9%	3.4%	2.0%	1.8%	0.7%	0.9%	0.9%	1.0%	0.8%
Economic Sector	10.0%	18.4%	19.6%	14.5%	18.0%	19.7%	16.6%	21.5%	19.1%
Agriculture	1.2%	1.1%	0.8%	0.8%	0.6%	0.8%	0.8%	3.3%	1.9%
Transports	5.2%	5.6%	3.8%	1.7%	4.7%	8.4%	4.2%	5.8%	4.0%
Fuel and Energy	1.8%	5.3%	4.1%	4.1%	6.1%	3.7%	4.9%	6.0%	4.7%
Extractive, Manufacturing and Construction	0.1%	1.4%	1.0%	0.6%	0.6%	0.6%	0.6%	1.3%	1.2%
General Economic Areas, Comercial and Labor	0.9%	4.3%	9.2%	6.7%	5.7%	5.8%	5.6%	4.7%	7.0%
Communication and IT	0.4%	0.4%	0.5%	0.4%	0.3%	0.4%	0.3%	0.4%	0.3%
Other Economic Activities	0.3%	0.3%	0.2%	0.1%	0.0%	0.0%	0.1%	0.1%	0.0%
Defense, Security and Social Order	15.1%	17.7%	16.5%	21.0%	19.6%	21.7%	21.0%	17.8%	19.7%
General Public Services and Other	41.7%	30.4%	34.0%	20.7%	21.8%	26.3%	19.6%	20.3%	21.7%
Total Expend. (Ex. Public Debt Operations)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

This year's revised budget sees an 8.4% reduction from its initial proposal

In sum, this year's revised budget is less expansionary than the initial proposal as it includes an 8.4% cut in total expected receipts/expenditures when compared with the initial budget figures. Said differently, the revised budget amounts to AKZ 10,401 billion, which compares with an initial projection of AKZ 11,355 billion for the year. This represents 33.6% of GDP (vs. 32.6% of GDP previously). This budget revision includes a significant decline in expected tax receipts from the oil sector (-32.9%) that more than outweigh a stronger contribution from non-oil sector related taxes (+16.5%). The revised budget also sees a marked reduction in spending on goods and services (-39.5%) and lower subsidies (-37.3%).

The government still relies more on fiscal revenues to finance its expenditures, but it increase its financing requirements in overseas markets

The government is still expected to finance its expenditures by relying more on fiscal revenues rather than on debt markets, which was the case in the 2018 budget proposal. The figures in the table on the next page show that fiscal receipts are anticipated to account for 57.6% of total revenues, with oil sector related taxes standing at 34.3% of the total. However, the government now anticipates to receive more financing from overseas markets this year than previously planned, as these account for a quarter of total receipts (vs. 17.6% before).

FINANCING AKZ BILLION	2019 (1)	2019 (2)	Change 2019 (2) / 2019 (1)	% of Total 2019 (1)	% of Total 2019 (2)	% of GDP 2019 (1)	% of GDP 2019 (2)
Receipts							
Fiscal Revenues	7,424	5,986	-19.4%	65.4%	57.6%	21.3%	19.3%
Taxes	7,033	5,564	-20.9%	61.9%	53.5%	20.2%	18.0%
Oil Sector	5,319	3,568	-32.9%	46.8%	34.3%	15.3%	11.5%
Non-oil Sector	1,714	1,996	16.5%	15.1%	19.2%	4.9%	6.5%
Social Contributions	181	181	0.0%	1.6%	1.7%	0.5%	0.6%
Other	210	241	14.9%	1.8%	2.3%	0.6%	0.8%
Asset Sales	2	2	0.0%	0.0%	0.0%	0.0%	0.0%
Financing	3,930	4,413	12.3%	34.6%	42.4%	11.3%	14.3%
Domestic	1,934	1,828	-5.5%	17.0%	17.6%	5.6%	5.9%
International	1,996	2,585	29.5%	17.6%	24.9%	5.7%	8.4%
Total Receipts	**11,355**	**10,401**	**-8.4%**	**100.0%**	**100.0%**	**32.6%**	**33.6%**
Expenditures							
Staff Costs	1,793	1,793	0.0%	15.8%	17.2%	5.2%	5.8%
Wages	1,698	1,698	0.0%	15.0%	16.3%	4.9%	5.5%
Goods and Services	1,400	847	-39.5%	12.3%	8.1%	4.0%	2.7%
Interests	1,626	1,599	-1.7%	14.3%	15.4%	4.7%	5.2%
Domestic	808	858	6.2%	7.1%	8.2%	2.3%	2.8%
External	819	742	-9.5%	7.2%	7.1%	2.4%	2.4%
Transfers	805	717	-10.9%	7.1%	6.9%	2.3%	2.3%
Subsidies	275	172	-37.3%	2.4%	1.7%	0.8%	0.6%
Acquisition of Non-Fin. Assets	1,296	1,024	-21.0%	11.4%	9.8%	3.7%	3.3%
Debt Amortization	3,843	3,734	-2.9%	33.8%	35.9%	11.0%	12.1%
Domestic	1,758	1,649	-6.2%	15.5%	15.9%	5.1%	5.3%
External	2,085	2,085	0.0%	18.4%	20.0%	6.0%	6.7%
Other Financial Investments	593	687	15.9%	5.2%	6.6%	1.7%	2.2%
Total Expenditures	**11,355**	**10,401**	**-8.4%**	**100.0%**	**100.0%**	**32.6%**	**33.6%**

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

ECONOMIC POLICY ACTIONS (2019)

The government's economic policy actions included in the revised budget for 2019 continue to be mainly focused on (1) restoring macroeconomic stability and deepening fiscal consolidation, (2) reviving the productive sector, in particular agriculture and (3) implementing the guidelines set in the National Development Plan (NDP) 2018-22.

Restoring macro stability, reviving the economy and implementing guidelines of NDP remain key policy actions

The implementation of the government's Macroeconomic Stability Program (MSP) is backed by the financial and technical support of the IMF under an Extended Fund Facility (EEF) agreed at the end of 2018. Its main policy objectives include (1) reducing fiscal vulnerabilities and strengthening debt sustainability, (2) lowering inflation levels, (3) implementing a flexible exchange rate regime, (4) ensuring the stability of the financial sector and (5) strengthening the fight against money laundering and financing of terrorism.

The MSP has the backing of the IMF in terms of the financial and technical support under the EEF

Apart from restoring macroeconomic stability, the government is committed to implementing economic diversification and restructuring policies to help Angola exit a prolonged recession. The NDP 2018-22 sets the main guidelines for economic policy aimed at reviving economic activity. In particular, the PRODESI aims to increase the supply of goods and services produced by the Angolan economy to reduce the country's dependency on imported goods.

Implementing economic diversification and restructuring policies to help Angola exit a prolonged recession

We highlight the government's efforts to improve financing conditions for local companies and towards private sector investment through the introduction of three different measures. First, the local authorities aim to reduce liquidity pressures still faced by companies operating in the domestic market through the settlement of arrears accumulated in recent years. These arrears have clearly hurt the local economy and so the government plans to intensify its efforts to repay the arrears during the year.

Improving financing conditions for local companies and towards private investment

Second, the government aims to ease access to private sector financing through several funds. These include (1) the national development fund, (2) the agriculture development support fund, (3) the Angolan active venture capital fund and (4) the loan guarantee fund. The government also plans to issue public guarantees to back private sector investments requiring external financing. These are detailed in the diploma entitled *Projecto de Apoio ao Crédito* (Credit Support Project) recently approved under Presidential Decree n: 159/19 of May 17th.

The government has several funds to improve private sector financing and also plans to issue public guarantees

And third, the central bank introduced Notice n: 04/2019 of April 3rd whereby it obliges local banks to grant loans during 2019 worth at least 2% of their total assets on 31 December 2018 at a total cost of 7.5% (including interest and commissions) to local companies operating in the

The central bank obliges local banks to grant loans worth 2% of their assets to the agribusiness sector at a agribusiness sector. The central bank added that the lending targets for each future year will be revised at the beginning of that year.

total cost of 7.5%

Finally, the government aims to improve the efficiency of public companies. This means that those companies that are economically viable could be restructured and those likely to be better managed by private sector investors could be privatized under the rules defined in the recently approved Privatization Law (n:10/19 of May 14th). The Public Private Partnership (PPPs) Law (n:11/19 of May 14th) also establishes the rules and regulations for the future relationship between the public and private sectors. Recall that the local authorities had already approved the Competition Law (n:05/18 of May 10th) and Private Investment Law (n:10/18 of June 26th) in 2018 as a sign of their commitment to the implementation of structural reforms that aim to promote competition and further liberalize the Angolan economy.

Approval of Privatization, PPPs, Competition and Private Investment Laws in order to improve efficiency of public companies and increase competition in the local market

Disclaimer

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

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

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

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

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

Additional information is available upon request.

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

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

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

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

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

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

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

Disclosures

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

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

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

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

EAGLESTONE SECURITIES

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

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